RAINBOW RARE EARTHS LIMITED
ANNUAL REPORT & ACCOUNTS 2020

NdPr – POWERING THE GREEN REVOLUTION.

RAINBOW
RARE EARTHS

OUR MISSION

OUR MISSION IS TO DEVELOP A LONG-TERM SOURCE OF NEODYMIUM, PRASEODYMIUM AND ASSOCIATED RARE EARTH ELEMENTS TO POWER THE GREEN REVOLUTION.

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RARE EARTHS - TECHNOLOGY METALS

RARE EARTH MAGNETS ARE ESSENTIAL BUILDING BLOCKS FOR CLEAN TECHNOLOGY FOR A GREENER FUTURE.

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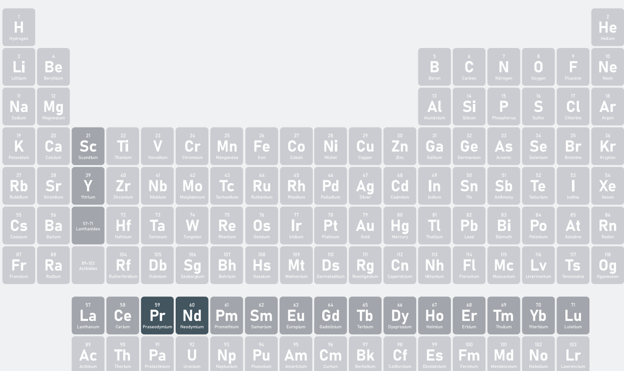
What are Rare Earths?
The Rare earth elements are a group of seventeen chemically similar elements that are crucial for the production and manufacturing of various hi-tech products and industrial processes.

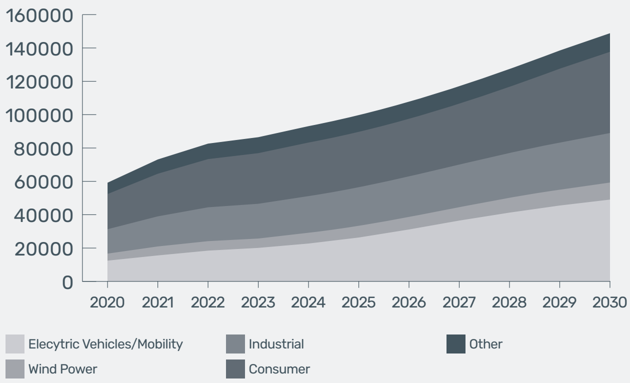
The principal value of rare earths comes from Neodymium (Nd) and Praseodymium (Pr), which are the vital elements in the manufacturing of the permanent magnets used for the motors and turbines driving the green technology evolution. Permanent magnet production accounted for over 90% of the total value of rare earth oxide consumption in 2019.

Accelerated demand for NdPr is being driven by the green economic revolution. Analysts are predicting that the widespread adoption of all electric vehicles over the coming decade will significantly increase the demand for permanent magnets, which are expected to be responsible for 25% of the total demand by 2030. Alongside growth in industrial applications and consumer electronics, total demand for NdPr is forecast to more than double within the next 10 years.



Periodic table with the 17 rare earth element highlighted
Scandium (Sc), Yttrium (Y), Lanthanum (La), Cerium (Ce), Praseodymium (Pr), Neodymium (Nd), Promethium (Pm), Samarium (Sm), Lutetium (Lu), Europium (Eu), Gadolinium (Gd), Terbium (Tb), Dysprosium (Dy), Holmium (Ho), Erbium (Er), Thulium (Tm), Ytterbium (Yb), Lutetium (Lu).

Anticipated Global REO Magnet Demand Growth

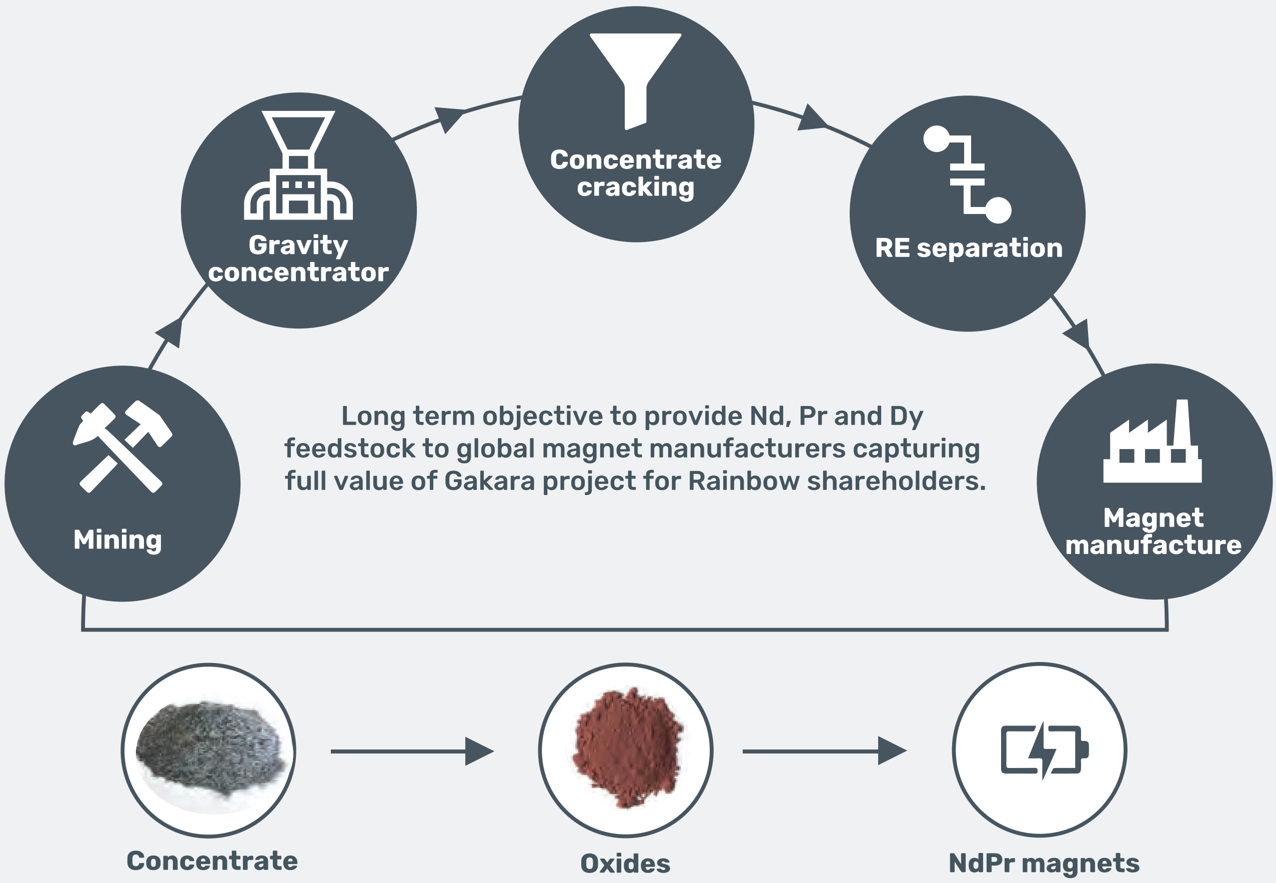


Total NdPr oxide supply in 2019 totalled 61kt. With demand predicted to reach 141kt by 2030 the ability of the industry to grow supply to match the anticipated demand is uncertain. Analysts have noted the challenges to bring new rare earth mines into production, including high levels of capital required to overcome complex processing flowsheets for many development projects. Forecasters are expecting rare earth prices, specifically Nd and Pr, to rise significantly to allow demand to be met.

BUSINESS MODEL

BUILDING A SUSTAINABLE FUTURE FOR OUR STAKEHOLDERS

Rainbow has a clearly defined strategy to develop commercial scale production at Gakara, targeting 10,000 - 20,000 tonnes per annum of concentrate via modular development. Longer term, further downstream processing will allow the full value of the deposit to be realised for shareholders.



SHAREHOLDER VALUE CREATION

POSITIONED FOR GROWTH

Rainbow's modular development strategy commenced with the recently announced JORC Exploration Target. Trial mining and processing carried out as part of our exploration effort demonstrates the ability to commercialise the Gakara project.

Stage 1 - Current status

Trial mining proof of concept at Gakara Project in Burundi.

Producing +/- 54% TREO concentrate via simple open pit mining and gravity separation from high-grade stockwork vein system.

Current trial mining growing to 100+ tpm concentrate in Q4 2020.

Stage 2 - 2021

Upgrade Gakara JORC exploration target to inferred resources.

Define technical requirements for initial commercial scale production.

Expand trail mining to confirm detailed knowledge of resources and mineralogy.

Stage 3 - 2021/22

Grow JORC resource base: large mineralised system expected to support up to 10ktpa - 20ktpa concentrate.

Complete full technical study on modular commercial production facility.

Stage 4 - 2022

Build commercial scale process facility for an initial 5ktpa concentrate production expanding to 10-20ktpa.

Capital cost not expected to exceed US$20 million for up to 10ktpa concentrate plant.

Stage 5 - 2023/24

Establish downstream beneficiation to produce a cerium depleted mixed RE carbonate.

Further downstream processing to separated Nd and Pr oxides to supply permanent magnet manufacturers.

AT A GLANCE

GAKARA PROJECT OUR ASSET REPRESENTS A HIGH-GRADE SOURCE OF RARE EARTHS WITH A CLEAR PATHWAY FROM EXISTING PILOT SCALE TO FULL SCALE COMMERCIAL PRODUCTION.

Gakara is located just south of Bujumbura, Burundi (East Africa).

The ore has simple, benign "Green" metallurgy/mineralogy – processing which involves crushing/gravity separation only (using no chemicals, and with negligible Uranium/Thorium content).

Rainbow holds a 25-year mining permit (granted in 2015) over a 39km² area with 10-year renewal options – trial mining and processing are underway to further understand the ore body and the optimum way to deliver a future commercial mining operation.

Rainbow's basket is weighted towards magnet rare earths: neodymium and praseodymium oxides represent >80% of the value in the concentrate.

Recently announced JORC Exploration Target has confirmed opportunity for an average of 52,000 tonnes of high-grade concentrate production at an average grade of ~54% rare earth oxides. The vein hosted run-of-mine ore averages 7–11% rare earth oxides, with additional lower grade Breccia hosted resource potential.

The project has huge potential – recent Geophysical survey identified 57 target areas for exploration and confirmed the presence of 3 large carbonatite bodies which represent the regional source of the rare earth mineralisation.

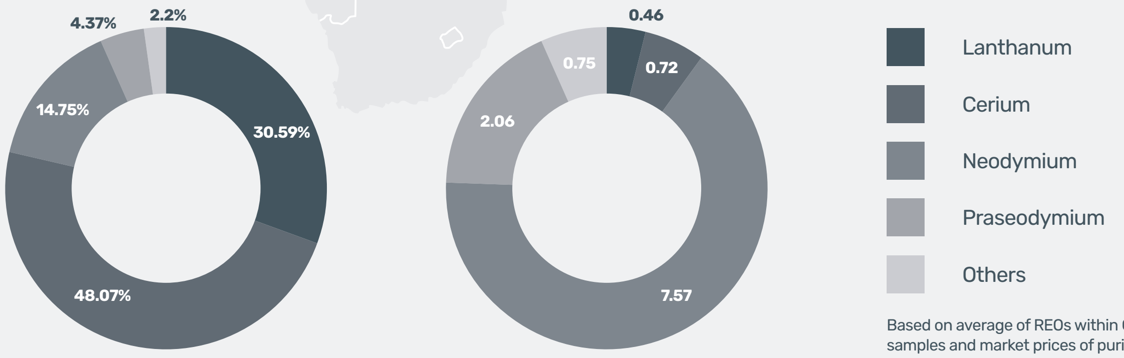
Focus on incremental growth to commercial production

- Rainbow intends to expand current trial mining capacity to >1,200tpa concentrate production using the current Pilot Plant, which whilst not itself a commercial level of production, will support the required bulk sampling and assessment of mining techniques for an initial 5,000tpa commercial operation.
- Exploration is planned to improve confidence and expand the resource in the high-grade, vein hosted Exploration Targets – upgrading to Inferred Resources, including resource drilling and ongoing trial mining/processing.
- Exploration work will also focus on identifying large scale breccia hosted mineralisation for longer term parallel production streams.
- Technical feasibility study planned for developing new processing facilities for scalable commercial production, initially focused on 5,000tpa concentrate production with growth expected to 10,000-20,000tpa.
- Rainbow has long-term plans to develop downstream cracking and separation capability to realise more of the inherent rare earth value for Rainbow shareholders.

Our asset

Basket Composition of Gakara Ore

Based on average grades of rare earth oxides within Gakara in-situ vein samples and market prices of rare earth oxides on China FOB basis as at 25 September 2020 .



By REO Content (Mass %)

By Value (US$/Kg TREO)

Based on average of REOs within Gakara in situ vein samples and market prices of purified REOs on China FOB basis as at 25 September 2020.

SUCCESS IS FOCUSED ON PEOPLE, RESOURCES AND THE MARKET.

STRATEGIC REPORT

CHAIRMAN'S STATEMENT

Over many years in the natural resources sector I have learned that each mining project is unique and the road to success is rarely straight forward. Key to investing is to understand the elements required for success and ensure these are present. Despite the challenges, I remain convinced that not only are Rare Earths an exciting market due for substantial demand growth, but that Rainbow's Gakara Project can be an important and low-cost source of supply for this growing market.

I believe that the elements required to develop the Gakara project into a large-scale commercial success are focused on people, resources and the market. Our vision of becoming a sustainable player in the rare earth world remains in place.

The management transition in August 2019, with the appointment of George Bennett as CEO, has delivered a new focus and drive to the business. The Board and management initiated a strategic review which resulted in a change of direction for the Company. There was a recognition that a greater understanding of both the geology and the mining methodology was required before commercial scale operations could be developed. Accordingly, the project took a necessary step back to the exploration phase to allow this understanding to be developed.

In addition to George's appointment, a number of changes in the senior team during the year have strengthened the company. As I look at the senior management and operational team in place today, I see a clear vision of how to develop a commercial mining project at Gakara, and the skills and experience necessary to deliver that vision.

Since first securing the licence in 2011 I have always believed in the inherent value of the Gakara project, which has many advantages compared to other global rare earth sources.

The grades seen in the stockwork veins are far in excess of any other rare earth deposits anywhere in the world, with the mineralisation present in the form of seams of almost pure bastnaesite/monazite. We have discovered these veins outcropping at surface over almost all of the 39km^2 mining permit, which tells us that the deposit contains a potentially vast quantity of high-grade ore.

The mining activities undertaken prior to the strategic review and the subsequent trial mining and processing completed to date has demonstrated that the mineralisation can be upgraded to an extremely high export grade concentrate through simple gravity separation. This concentrate has naturally low levels of radioactivity, making the export for onward processing straight forward and removing the need for a complex processing flow sheet with associated high levels of capital and operating costs.

The project also contains many lower grade breccia hosted resource areas which can be developed in parallel. Every area of the licence tested to date has shown the same amenity for simple gravity processing, with low levels of radioactivity present in the resulting concentrate.

With the correct exploration and mining techniques Rainbow will not only be able to define a large-scale resource, but mine this with minimal dilution and ore loss for a low-cost operation. The simple processing allied to the high in-situ resource grade will allow the project to be developed in a low capital-intensive way, with the large-scale complex processing facilities required for many rare earth projects not needed. The high grade of our exported concentrate also minimises the infrastructure costs associated with exporting our concentrate and ensures that our export costs remain a small portion of the overall project cost base.

Once a project of commercial scale is established, developing further downstream processing to upgrade the concentrate to a higher value product will allow Rainbow's shareholders to realise the true value of the project and their investment.

My belief in rare earth markets as an area of substantial growth driven by green technologies remains undimmed. Prices have been low during the current financial year but have picked up strongly since 30 June 2020. The fundamentals for the growth of both electric vehicles and green energy generation, footprinted in ever tightening global emissions regulations, underpin the future demand growth for rare earth permanent magnets. Significant new sources of supply are unlikely to come online at current rare earth prices, with many projects having the twin challenges of low grades and complex processing requirements. This is likely to create a supply deficit, driving up underlying prices.

Ongoing trade tensions between the US and China have fuelled speculation about the security of supply of rare earths. In addition to electric vehicles and turbines, rare earths are used in specialist military and scientific applications. With China accounting for ~90% of current worldwide production of rare earths, such concerns underline the importance of a significant non-Chinese source such as Gakara.

The expected growth in demand for rare earth metals also lead Rainbow to successfully apply for a number of exploration licences in Zimbabwe during the year, expanding the Company's exploration portfolio beyond the Gakara licence. Detailed exploration at these properties has not yet commenced, with the Covid-19 pandemic making international travel more complex. However, as an entrepreneur, I see many opportunities for additional rare earth projects and will ensure that the best are made available to the Rainbow shareholders.

Finally, I would like to thank the many people who have given their support to Rainbow during the year: my fellow Board members for their advice and counsel; the staff and management of the Company, particularly those in Burundi who have shown determination and resilience in challenging conditions; our wider stakeholders including the communities in which we operate, our suppliers, local officials and members of the Burundian ministries of mines and finance, who have been incredibly supportive.

Adonis Pouroulis
Chairman

CHIEF EXECUTIVE'S STATEMENT

THE GLOBAL RARE EARTH MARKET IS POISED FOR A PERIOD OF SIGNIFICANT GROWTH.

I first invested in Rainbow at IPO as I believed then, as now, that the global rare earth market was poised for a period of significant growth. With ever tightening emissions regulations the growth in electric vehicles and green energy generation, with the associated demand for rare earth magnets, is clear.

Having invested significantly in the July 2019 placing undertaken by the company I was intrigued when invited to visit the Gakara project, and immediately saw not only the long term value opportunity, but previous decisions that needed rectifying in order to allow the project to develop into a true commercial venture. Prior to my formal appointment as CEO I initiated a strategic review, the results of which acknowledged that a lot more work was required before a commercial mine could be developed at Gakara: in order to move forward, we would first need to take a step back to an exploration focus.

On my appointment as CEO in August 2019 no time was wasted in making some initial changes as a result of the strategic review. I strengthened the local team to improve the technical knowledge base, specifically in respect of mining. With extremely high-grade veins in an irregular stock-work system it was clear that the ability to understand the geology and mine it effectively was core to the projects future.

Significant amounts of exploration work had been carried out across the project area since inception, but the huge amount of data generated needed to be organised in a systematic exploration database by CSA Global which has taken time to complete. The impact of the Covid-19 pandemic slowed down our work, delaying the receipt of important assays, but I am pleased with the understanding that has emerged from the recently announced JORC Exploration Target report.

Our JORC Exploration Target has demonstrated that the resource potential in the high-grade stockwork vein system is significant and supports my initial view and statement that the Gakara deposit is part of a very large rare earth mineralised system, capable of supporting commercial production at an initial 5,000 tonnes per annum of concentrate using a new, larger processing facility for an initial 10 year mine life in the nine target areas reviewed to date. The challenge with any stockwork vein system is defining the resource with sufficient confidence to invest given the inherent erratic nature of the veins. The recent JORC Exploration Target report has set out a clear vision of how to deliver that confidence with a low-cost exploration program, expected to take approximately 15 months to execute. I look forward to delivering a more formal JORC compliant resource and thereafter an associated technical feasibility study for this next phase of growth.

These targets represent only a small portion of the known mineralisation across the licence area, with a further seven areas historically mined prior to the Company's ownership that have not yet been explored and a significant number of additional targets identified by the recent TECT structural interpretation and surface exploration. The licence area contains a number of lower grade breccia hosted areas of mineralisation in addition to the high-grade stockwork style vein systems, which could be developed in parallel. For this reason, I intend to pursue a modular approach to growth and believe that the Gakara project will eventually be able to sustain between 10,000 - 20,000 tonnes per annum of rare earth concentrate production.

In respect of our trial mining and processing operations, significant changes have been delivered by our new Project and Mine Manager, Chris Attwood, appointed in September 2019. As a mining engineer, Chris has brought the skills and experience we needed to improve efficiency, driving strengthening production from our pilot plant through the year and, most importantly, creating a blueprint for the mining methodology which will eventually support commercial scale production. Prior to his appointment vein mining was undertaken manually and waste removal was not efficiently managed through the wet season, restricting new sources of ore. Selective mechanical mining of ore now delivers a grade of ~10% rare earth oxides, amongst the highest rare earth run of mine grades in the world, suitable for upgrade in our pilot processing plant. A greater emphasis on waste removal through shortened haul roads suitable for year-round use through both wet and dry seasons and replacing expensive rented mining equipment with an owner managed fleet has delivered us a more efficient overall trial mining operation.

We have been fortunate that the Covid-19 pandemic has not significantly impacted our trial mining and processing operations at site. International travel has become more difficult, such that my management team and I have not been able to travel to site as regularly as usual, and our expatriate staff rosters have become extended. However, there has been no local occurrences and operations at site have been largely unaffected.

As we begin the new financial year, we are investing in increased capacity for our mining fleet to better utilise the capacity of our pilot processing plant, targeting pilot production of 100 tonnes of concentrate per month. Our expanded fleet will also allow our trial mining to expand to new areas, delivering bulk samples and a strong understanding of the mineralised vein intensity across new deposits as part of our exploration program.

Our pilot processing plant continues to operate well, demonstrating that ore sourced from different deposits across the licence area is amenable to simple gravity processing to deliver a high-grade concentrate with low levels of radioactivity suitable for export. This means that we are producing the "Greenest" rare earth concentrate in the world, using no reagents in our processing circuit to deliver one of the highest grades of rare earth concentrate in the world. As we increase our formal trial mining we will continue to source ore via our exploration teams from across the licence area and batch process this through our pilot plant to ensure that we understand any local variations in the minerology.

Once the commercial scale operation is developed, we aim to capitalise on the enormous value opportunity from further downstream processing. Processing our concentrate to a mixed rare earth carbonate or oxide will enable significantly more of the ultimate project value to be realised for shareholders. To ensure any decisions taken now are consistent with that long-term value creation we are currently in the process of updating the initial beneficiation scoping study performed by SGS in 2015.

As we develop the business, further funding will be required over the next 12 months for our ongoing exploration program and to complete a feasibility study for moving to commercial production. Our recently announced JORC Exploration Target report set out a clear US$3.2 million programme of drilling and other test work to upgrade the confidence in the Gakara mineralisation and allow a JORC compliant resource to be defined. We remain focused on ensuring that additional financing is structured in such a way as to minimise dilution, and phased such that it follows on the back of successful progress we have made towards our objectives, which we believe will underline the significant value inherent in the Gakara project.

Our belief that the Gakara deposit has enormous potential has never been in doubt. A lot of hard work has been undertaken this year to deliver a platform for growth. I strongly believe that Gakara can be transformed into a profitable rare earth mine ready to compete on the world stage. I remain fully aware that investor confidence in the project can only be won through hard work, and hard evidence. I look forward to updating you all on our progress in the months to come.

George Bennett
Chief Executive Officer

OPERATIONS REVIEW

IDENTIFYING A METHODOLOGY FOR THE LONG-TERM DEVELOPMENT OF THE GAKARA MINE.

Mining and processing operations in the year
During July and August, during the strategic review initiated by the CEO, mining operations were impacted by ore availability, with significant waste not moved efficiently during the previous rainy season. High grade ore being unavailable, lower grade material was sourced from outside the original mine plan and processed, although overall production was poor at just 13t of concentrate per month on average. In addition, significant waste material previously side cast to access ore was moved to the waste dump.

Following the strategic review, trial mining operations from September 2019 have focused on identifying the most appropriate mining methodology for the long-term development of the Gakara mine.

During 2018-19 mining had been undertaken with a mining fleet rented locally in Burundi under a number of short-term contracts. Ore was mined on a highly selective basis by hand, with capacity limited by the ability to strip waste to expose ore veins. This proved uneconomic, with high rental charges and poor fleet availability due to regular mechanical outages. The rented haul trucks were unable to operate through the wet season on the haul roads, with much of the waste during the wet season side cast rather than taken to the waste dumps. The processing plant performed well in 2018-19, delivering recovery and final concentrate grades in line with the original expectations.

During 2019-20 the Group reduced the rented fleet, further limiting mining capacity but at a greatly reduced overall cost. Trial mining was focused at the Murambi site, with previously side-cast waste removed to the waste dump and a more formal benched mine plan initiated. Haul roads have been upgraded to reduce waste cycle times and associated haulage costs. To prepare for year-round operations through both wet and dry seasons a grader was purchased in January 2020 to simplify haul road maintenance in the wet season and reduce expected fleet down time due to rains.

Various mining methods were trialled as the team seeks to evaluate the optimal mining method for a commercial scale mine. The mineralised veins at Gakara have a high in-situ resource grade but are narrow and non-uniform in nature. The original mining method used since IPO had involved highly selective mining of veins by hand, delivering a high-grade

feed to the plant for upgrade with a high strip-ratio of waste to ore of ~200:1. This was initially replaced with bulk mining of the veins using an excavator for a period of 4 months in the current year, reducing the waste:ore stripping ratio to ~20:1. The estimated feed grade to the plant during this period dropped to ~2% total rare earth oxides ("TREO"), which overloaded the processing plant's fine material handling capacity, leading to poor overall recovery, but still producing an overall concentrate grade of ~54% TREO.

The final mining method, which has the potential to be used in a commercial scale operation, has focused on mining of veins with a much smaller TLB excavator to minimise ore dilution. This delivers a diluted run-of-mine grade of ~10% TREO to the processing plant at a waste:ore stripping ratio of ~100:1.

At this grade the processing plant has performed well, delivering a consistent ~54% TREO concentrate for export from all ore sources trialled to date. Concentrate production has grown consistently through the year, reaching 61.3t in June 2020.

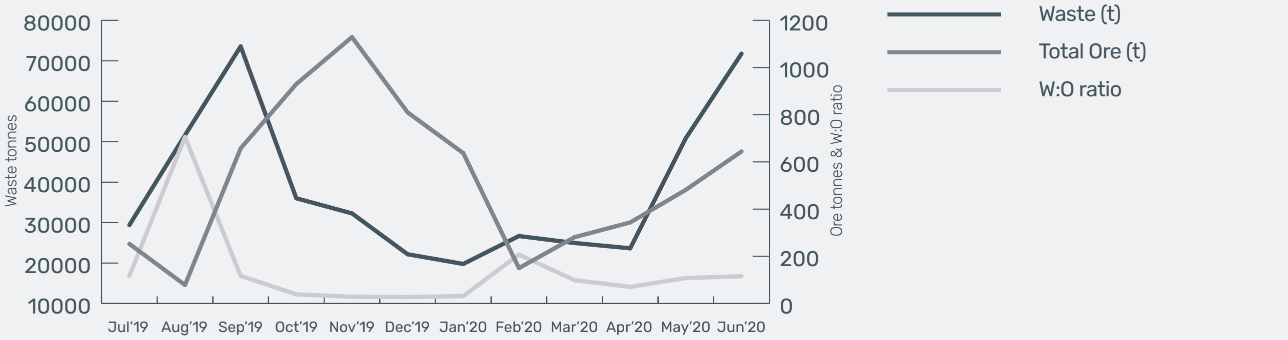
At 30 June 2020 the Group is renting a single bulldozer in Burundi under a short term contract renewed weekly, with no minimum usage requirement. The remaining mining equipment, five haulage trucks, a 20t excavator, two TLB excavators and the grader are directly owned. The trial mining fleet is the constraint for the current operations, capable of delivering ~600t of ore to the plant for ~60t concentrate per month during dry conditions. A larger 34t excavator and additional haulage trucks are being sourced post year-end to expand trial mining operations to better utilise the capacity of the current pilot processing plant as part of the exploration programme.

Health and Safety

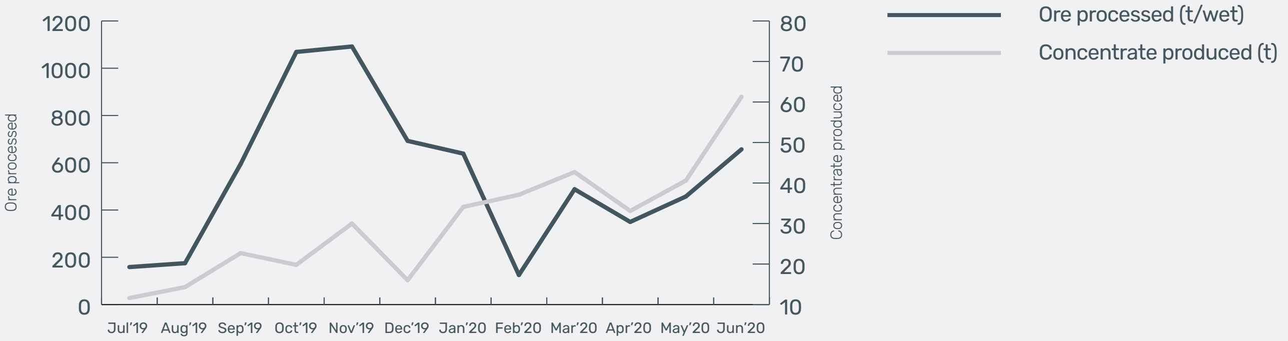
The Company takes its health and safety extremely seriously and is proud of having achieved zero LTI's in the year (2018-19: one). The Company has achieved a total of over 1 million hours without an LTI since February 2019 when two employees suffered minor injuries following a lightning strike near a rain shelter where mine workers were taking shelter during a storm.

Details of the Company's safety and health practices and policies are set out on page 18.

Mining statistics



Processing statistics



OPERATIONS REVIEW
CONTINUED

EXPLORATION STRATEGY FOCUSED ON UNDERSTANDING THE VAST AMOUNT OF HISTORICAL DATA COLLECTED.

Exploration
Rainbow's exploration strategy in 2019-20 has focused on understanding the vast amount of historical data collected across the project area, alongside the geological controls and settings, to re-define the current resource base. This work included assaying all holes from the 2018 drilling programme completed at the Kiyenzi breccia hosted target and developing 3D models of high grade stockwork vein style mineralisation in areas of current and historical mining. All historical exploration data has been captured by CSA Global in a single database to assist this process.

Mechanised trial mining of the high grade stockwork style vein systems is an important element of the overall exploration activity, as it generates detailed mapping of the veins and bulk samples to demonstrate the grade and metallurgical characteristics of the target areas. Two areas have so far been subject to mechanised trial mining, with high grade vein material from a number of the other high priority targets collected by hand and processed through the current pilot plant.

An updated JORC statement setting out the current resource target and the further exploration required to upgrade this to a formal JORC resource classification was released on 8 October 2020, which is the culmination of this work. The Exploration Targets cover nine high grade stockwork style vein targets and one lower grade breccia target. The Company currently has a pipeline comprising of an additional 24 Targets confirmed to be made of high-grade stockwork style mineralisation similar to the nine Exploration Targets modelled in the JORC Exploration Target report.

Completion of the drill programme set out in the JORC Exploration Target report, together with ongoing mechanised and manual trial mining, is expected to improve the confidence in the stockwork style resource target areas to allow a technical study to be completed on the expansion of the trial mining activities to a commercial scale. The initial objective is to produce 5,000 tonnes of high-grade rare earth concentrate per annum and understand the opportunities for further expansion from both high grade stockwork style targets and lower grade breccia hosted targets for an increase to a minimum of 10,000 tonnes per annum of concentrate production.

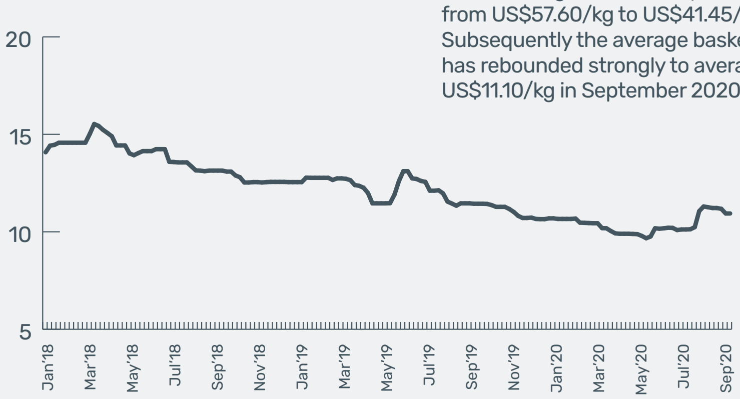
The Company also completed a reinterpretation of high-resolution geophysical data by TECT Geological Consulting in March and April 2020 as part of a structural and lithological review which confirmed the presence of three large carbonatite bodies at Gakara, which represent the regional source of rare earth elements. This work defined a total of 36 Tier-1 and Tier-2 targets and 21 Tier-3 targets. Follow up work has been performed for the Tier-1 targets, further defining the highest priority areas for ongoing exploration activity.

Rare earths prices

Rare Earth Elements comprise a group of 17 chemical elements. The primary value of Rainbow's Gakara project is delivered from two of these elements: Neodymium and Praseodymium (NdPr), which are critical elements for permanent magnets required for the motors and turbines that will drive the green electrical revolution.

Rainbow's operation produces a consistent high grade rare earth concentrate with ~54% TREO, of which ~19% relates to Neodymium and Praseodymium oxide, accounting for ~80% of the typical total value of Rainbow's exported concentrate.

Rainbow Basket Price History



Demand for NdPr magnets is forecast to grow significantly with the transition to electric vehicles and green power generation from direct drive wind turbines, alongside other industrial and strategic defence uses. The supply of rare earths globally has been dominated by China, but the US and other countries are now focusing on strengthening supply chains outside of China. Environmental legislation in China is also expected to restrict Chinese supply.

During 2019-20 the basket price of Rainbow's typical concentrate fell from US$12.74/kg to a low of US$9.67/kg in May 2020 driven by falls in the price of Neodymium oxide from US$49.70/kg to US$39.50/kg and Praseodymium oxide from US$57.60/kg to US$41.45/kg. Subsequently the average basket price has rebounded strongly to average US$11.10/kg in September 2020.

Zimbabwe licences

In November 2019 the Company acquired a portfolio of 10 exploration licences in Zimbabwe. The licences were acquired via Benzu Resources Limited, a company associated with Cesare Morelli, the Group's Chief Geologist, for a total cost of US$18,000 including company formation costs. No detailed exploration work has been carried out at these licences to date. The licences contain no formal exploration expenditure commitments.

JORC compliant Exploration Target announced 8 October 2020

	Lower estimate		Upper estimate	
	Tonnes	**TREO %**	**Tonnes**	**TREO %**
Vein Hosted Mineralisation				
Murambi South	36,000	7.0%	52,000	12.0%
Gasagwe	27,000	7.0%	39,000	12.0%
Rusutama	23,000	7.0%	33,000	12.0%
Gakara	61,000	7.0%	87,000	12.0%
Gomvyi Central	15,000	7.0%	22,000	12.0%
Gashirwe West and East	45,000	7.0%	64,000	12.0%
Bigugo	8,000	7.0%	11,000	12.0%
Gasenyi	47,000	7.0%	67,000	12.0%
Vein Hosted Exploration Target	**262,000**	**7.0%**	**375,000**	**12.0%**
Breccia Hosted Mineralisation				
Kiyenzi grade tonnage model	98,000	1.0%	132,000	1.5%
Kiyenzi depth extension	60,000	1.0%	82,000	1.5%
Kiyenzi lateral extension	94,000	1.0%	128,000	1.5%
Breccia Hosted Exploration Target	**252,000**	**1.0%**	**342,000**	**1.5%**

Note:
The potential quantity and grade of the Exploration Target is conceptual in nature, there being insufficient exploration to estimate a Mineral Resource and that it is uncertain if further exploration will result in the estimation of a Mineral Resource. Numbers are rounded to appropriate levels commensurate with the level of accuracy of an Exploration Target. The Exploration Target was estimated as a range as required by the JORC Code (2012) and is based on data of varying quantity and quality, although is based largely on actual exploration, mining and processing results.

Strategic Report

FINANCIAL REVIEW

Following the end of 2018-19 year-end and the strategic review which was completed in August 2020, the board took the decision to focus on exploration activity to better understand the Gakara deposit and prepare a JORC compliant Exploration Target. Alongside this further work was needed to trial and identify appropriate mining methods and processing options for a planned initial 5,000tpa commercial scale operation to capitalise on the full opportunity of the Gakara project.

A full impairment of the historical costs of the previously mined pits and the plant at Kabezi was recognised at the end of 2018-19, reflecting the issues encountered with the previous strategy. However, the mine development costs that remained reflect valuable data and knowledge in respect of the wider Gakara licence area that was integral to the new exploration activities. As such, on 1 September 2019, these mine development costs have been transferred to exploration and evaluation assets reflecting the redeployment of the exploration data to support the new exploration activity. The ongoing costs of trial mining and processing from the date of the strategic change, net of margin on associated revenue earned, have been capitalised as part of the exploration and evaluation assets for the year-ended 30 June 2020. The trialling of different mining methods and bulk sample processing is integral to building a full understanding of both the geology and mine design required for the planned commercial scale operation. Importantly, the trial mining has also enabled the Company to maintain local employment and helps support our social licence to operate now and for the future.

Profit and loss
With the return to an exploration focus the loss for 2019-20 is significantly lower than in 2018-19.

Revenue from the year of US$0.4 million is lower than US$1.5 million recognised in 2018-19 as the project moved into an exploration focused phase, trialling a number of different mining methodologies to determine the most effective way to commercialise the deposit. Total concentrate exports fell from 850t to 275t and realised prices fell from US$1,949/t to US$1,535/t driven by lower rare earth metal market prices. Revenue in the year was realised after the completion of the strategic review and has reduced the net costs associated with trial mining and processing capitalised during the year.

Production and sales costs in July and August 2019, prior to the completion of the strategic review, totalled US$0.5 million. In addition, a further US$1.1 million of costs associated with trial mining and processing, net of associated revenue and movements in the stockpile of finished concentrate, have been capitalised in 2019-20.

Administration expenses in 2019-20 totalled US$2.1 million compared to US$1.4 million in 2018-19. The increase in the current year relates to Burundi support costs, totalling US$0.6 million, which are not suitable for capitalisation under IFRS 6 as they do not relate entirely to work furthering the understanding of the ore body.

Adjusted EBITDA for the year, reflecting the above items, was a loss of US$2.6 million compared to US$3.4 million in 2018-19, reflecting the capitalisation of trial mining costs.

Share-based payments totalled only US$7,000 in 2019-20 (2018-19: US$62,000) reflecting the fact that no new employee share options have been awarded since 2017. The costs associated with all issued share options have been fully expensed at 30 June 2020 based on vesting.

Significant depreciation (US$2.6 million) and impairment (US$3.9 million) expenses for the mine development asset in 2018-19 were not repeated in 2019-20, reducing reported losses. In 2019-20 US$0.2 million of depreciation relating to the trial mining fleet and site infrastructure has been capitalised as part of exploration and evaluation assets. A further US$0.3 million of depreciation included in the income statement relates to the mine development costs during July and August 2019, prior to the completion of the strategic review, alongside office equipment and right of use assets.

Finance income of US$0.9 million (2018-19: US$0.4 million) relates primarily to foreign exchange gains on movements between the Burundian Franc ("BIF") and US dollars, the functional currency of the Group. Finance costs of US$0.2 million relate to a loan with the Group's bank in Burundi, FinBank, and the imputed interest associated with both lease liabilities and a US$1.0 million loan note issued to Pipestone Capital Inc during the year. The cost was significantly higher in 2018-19 due to costs associated with the Group's financing with Lind Partners.

Balance sheet

A written down value of US$5.4 million was transferred from mine development costs to exploration and evaluation costs during the year relating to the Gakara Project in Burundi as noted above. An additional US$2.2 million of costs, including US$1.2 million of operating costs associated with trial mining, net of US$0.4 million margin on revenue, US$0.2 million of associated depreciation and US$0.8 million of direct exploration costs, were capitalised during the year.

As a result of the transfer to exploration and evaluation assets, property, plant and equipment at 30 June 2020 totalled US$0.9 million, including mining vehicles with a net book value of US$0.8 million (2019: US$0.6 million). The US$0.4 million additions to the trial mining fleet, including a grader and five tipper trucks, were the only material additions to fixed assets in the year.

Inventory at 30 June 2020 totalled US$0.2 million (2018-19: US$0.1 million), primarily relating to 131t of available for sale concentrate in Burundi stated at net realisable value. Subsequent to the year end 100t has been shipped at a provisional price of US$170,000.

Trade and other receivables (including prepayments) increased by US$0.4 million to US$0.9 million at 30 June 2020 driven by the receipt after the year end of proceeds from the placing undertaken in June 2020. A total of US$0.6 million was included in debtors at 30 June 2020. Trade and other receivables also include US$0.3 million (2019: US$0.3 million) in respect of royalty receivables due to the royalty payments up to 30 June 2020 being paid based on the total basket price of exports, rather than on the discounted price received from the Company's customer, ThyssenKrupp. Subsequent to the year end the Government of Burundi has agreed to repay this following confirmation of their agreement with a report by SRK consultants commissioned by the World Bank.

Trade and other payables of US$0.7 million are substantially reduced from US$2.1 million reflecting stretched trading terms at 30 June 2019 ahead of a placing in July 2019, with many supplier payments settled in July and August 2019. Amounts due to staff and management have also been reduced with accrued bonuses and non-executive director fees settled via equity in the July 2019 and June 2020 placings as set out in note 19.

The Company had borrowings of US$1.7 million at 30 June 2020 (2019: US$1.6 million). A US$0.8 million loan with Finbank in Burundi was converted from an overdraft at 30 June 2019 of which US$0.2 million is repayable within 12 months. In addition, the Company received a US$1.0 million interest free loan from Pipestone Capital Inc, a Company associated with George Bennett, CEO, of which US$0.9 million remains outstanding at 30 June 2020.

Cashflow

Net cash in the 12 months to 30 June 2020 increased by US$0.7 million (2018-9: decrease of US$0.2 million). Financing inflows totalled US$5.9 million (2018-19: US$3.5 million), as set out below. These were invested US$2.8 million (2018-19: US$1.6 million) in tangible and intangible assets associated with the Gakara Project and US$2.8 million (2018-19: US$2.1 million) in operating activities.

Financing

In order to fund ongoing capital and operating cost requirements, the Company raised a net US$5.1 million (2018-19 US$2.1 million) via the issue of new equity during the year. In addition, shares were issued to settle liabilities as set out below:

- In June 2020 an equity placing raised net proceeds of US$1.4 million with new and existing shareholders at a price of 3 pence per share via the issue of 37,138,284 shares. In addition, 1,993,779 shares were allotted to satisfy US$0.1 million of the loan received from Pipestone Capital and 2,534,604 shares were issued to settle outstanding remuneration for non-executive directors.
- In February 2020 an interest free loan of US$1 million was received from Pipestone Capital Inc, a company beneficially owned by George Bennett, CEO, of which US$0.1 million was repaid in equity as part of the placing concluded in June 2020. A new loan was put in place for the US$0.9 million balance which remains outstanding at 30 June 2020.
- In July 2019, an equity placing raised net proceeds of US$4.2 million with new and existing shareholders at a price of 3 pence per share via the issue of 121,207,778 shares. In addition, 37,908,503 shares were allotted to satisfy the convertible loans with Pella Ventures Limited and Lind Partners LLC, and 4,859,603 shares were issued to settle outstanding remuneration.
- In January 2019, the Company had entered into a financing facility with Lind Partners. This included a convertible loan of US$0.75 million, as well as an equity facility, of which three tranches of US$100,000 each were drawn during the prior financial year. Proceeds from the convertible amounted to US$0.75 million, with gross proceeds from the three equity tranches amounting to US$0.3 million, which, after deduction of fees in connection with these transactions, resulted in net cash received of US$0.9 million. The loan note was settled through the placing concluded in July 2019.
- In May 2019, the Company entered into a bridging loan with Pella Ventures Ltd, whose beneficiary is Adonis Pouroulis, for US$0.7 million, which was repaid in equity as part of the placing concluded in July 2019.

At 30 June 2020 the Group had US$788,000 of available cash plus a further US$559,000 received from the placing concluded in June 2020 after the balance sheet date. The Group's cash flow forecasts demonstrate that additional funding estimated at US$2.8 million will be required for the period ending 31 December 2021. In addition, the recently announced JORC Exploration Target has further defined US$3.2 million for exploration requirements to upgrade the confidence in the mineralisation at the Gakara project to a level which will allow a formal JORC resource to be defined. The Company will work to ensure that these funds are raised in such a way as to minimise dilution and appropriately phased.

Taxation

The corporation tax rate in Burundi is 30%, however no taxable profits were earned during the period. In the absence of taxable profit a minimum tax is charged calculated as 1% of revenue, with quarterly payments on account based on the tax paid in the prior year. The corporation tax charge for 2019-20 totalled US$9,000 (2018-19: US$23,000). Quarterly payments made in 2019-20 exceeded the year-end tax charge such that US$9,000 was recoverable at 30 June 2020 and no quarterly payments are being made for 2020-21.

Including corporate tax, the Company paid a total of US$478,000 in direct and indirect taxation in Burundi in 2019-20 (2018-19: US$605,000).

HEALTH & SAFETY

THE COMPANY ADOPTS A ZERO-HARM POLICY.

Rainbow is committed to ensuring that all its staff, as well as contractors and other visitors to its sites, are kept healthy and safe from harm. The Company adopts a zero-harm policy.

Throughout the organisation, individuals are held responsible for their own and everyone else's safety and wellbeing, while managers and supervisors are responsible for ensuring standards and that the relevant policies are always adhered to.

The Safety, Health and Environment Committee ("SHEC"), a sub-committee of the Board of Directors (chaired by Shawn McCormick), is ultimately responsible for making sure appropriate policies are in place, and that those policies are being enacted.

Reporting
Safety statistics are collected on a monthly basis and reported to senior management. These statistics include any Lost Time Injuries ("LTIs"), plus any incidents requiring first aid, near misses, damage to property, or environmental damage.

During the year, no lost time injuries were reported. Two minor incidents were recorded over the period to 30 June 2020, both relating to minor property damage.

Policies and procedures
The Company has implemented an Operating Health and Safety ("OHS") system that includes policies and standard operating procedures in a number of key areas including the following:

- Environmental management
- Hazard identification and risk assessment
- Personal Protective Equipment ("PPE") Policy
- Malaria policy
- HIV/AIDS policy
- Incident management
- Substance abuse policy
- Vehicle and machinery maintenance

Management procedures are available to all staff in French, English and Kirundi where appropriate.

The Company also has an Anti-Bribery policy which is communicated to employees.

Training
The training of workers is a requirement of Burundi legislation, and is a key priority of the Company, as it results in not only safer, but more efficient and effective working practices.

Training is considered particularly important given the bulk of the work at either the Gakara mine site or the Kabezi plant site is undertaken by local recruits, who typically have had little experience of mining prior to working with Rainbow.

All staff and contractors are required to undergo an induction programme before commencing activity. This induction serves to set out the rules with which all employees and visitors must comply on site, but also covers training in use of tools and equipment, as well as ensuring all staff are provided with the requisite PPE.

As well as induction, workers are required to hold routine "toolbox" meetings to discuss safety issues and are encouraged to consider risks of each activity for themselves. The principle of each individual taking responsibility for his/her own safety, as well as that of colleagues, is entrenched in the training process.

SOCIAL DISTANCING & ENHANCED PERSONAL HYGIENE PRACTICES ARE BEING FOLLOWED BY ALL STAFF.

Health
The Covid-19 pandemic has not impacted the Gakara Project to date. No staff have missed work as a result of the pandemic. Covid-19 remains a health risk for the project and medical advice to increase social distancing and follow enhanced personal hygiene practices is being followed by all staff.

In addition to Covid-19, a number of illnesses have been identified as risks under the OHS system, notably malaria, HIV/AIDS, and gastric infections. The OHS policies and guidelines provide guidance on how to reduce the risks from these and other illnesses.

Gastric illnesses remain an ongoing risk in Burundi, and hygiene standards are enforced in particular where food is prepared. Potable water was also identified as a priority, in view of the absence of reliable sources at operating locations. Accordingly, potable water is made available at all sites.

In the event of illnesses and accidents, employees are offered medical and accident insurance which substantially covers the cost of medical care. In addition, supervisors have been provided with first aid training from a reputable international organisation.

Other health and safety
All staff are made aware of the potential risks not only to themselves and colleagues, but also to local communities.

Potential risks and risk awareness training includes training in task specific hazard identification and risk assessment, continuous risk assessments (also known as a Daily Safe Task Instruction – "DSTI") undertaken by the responsible supervisor prior to the start of any work in a specific work area, and standard operating procedures applicable to a specific task or work.

Rainbow's operational sites are cordoned off and it is not permitted for any persons without the appropriate training or induction, and PPE, to enter.

On public roads, Rainbow staff and contractors are required to drive with care and attention, particularly on quieter rural roads frequently used by local communities. Safety signage is employed extensively to warn of the relevant risks and to provide reminders as to each and everyone's obligations.

CORPORATE & SOCIAL RESPONSIBILITY

Rainbow is committed to the highest standards of Corporate Social Responsibility ("CSR") and strives to ensure that the local community shares in the benefits of its Gakara Rare Earth Project in Burundi. The local community is our partner in this endeavour, and our progress to date would not have been possible without their continued support. As a result, our present CSR and community outreach initiatives are reflective of the value we place on this partnership.

To date, this has included a variety of activities:

- As at 30 June 2020 Rainbow directly employed 251 Burundian staff, in addition to 21 local sub-contractors.
- Rainbow has also sought to provide local people with business opportunities, such as catering for the workforce, and purchases local produce wherever possible.
- Rainbow continues to undertake road infrastructure improvements to public roads which benefit the local community and uses its mining fleet to help maintain local roads, including clearing up after landslips associated with the heavy local rains experienced each year.
- All Rainbow mining and production employees can be registered for mobile banking and payment of salaries, whilst permanent employment contracts are now offered at all levels of the company, which minimises temporary labour.
- The state of Burundi has a non-dilutable 10% shareholding in the project and will benefit from any dividends generated, together with normal payroll taxes, corporation taxes and a royalty of 4% on all sales revenue. Following the acceptance of a report by SRK commissioned by the World Bank, the Government of Burundi has accepted that the royalty will be based on the net revenue received subject to a maximum discount for downstream processing equal to 67% of the published price of the underlying contained rare earth metal oxides.
- Rainbow has made donations to several projects in the town closest to its mining area, including participation in the construction of the Mutambu Football stadium and Mutambu Church.
- Land ownerships and population records have always been recognised along with a compensation formula for any families that have been moved or agricultural land appropriated.
- Rainbow supplies clean fresh water to the community from a tank outside its plant at Kabezi, fed from Rainbow's own borehole supply. Approximately 10,000 litres of water per day are drawn from this tank by the local community.
- Rainbow is committed to adhering to the strictest international health and safety practices. In line with this, the Company employs a fully qualified OHS Manager and has incorporated stringent health and safety measures into day to day practice as well as establishing a formal committee comprised of members of the Board.
- All employees are equipped with full PPE and rigorous safety assessments are compiled prior to any activity.

The Burundi mining industry is in its infancy, and so far there has been strong support for the Gakara Project at both a local and governmental level. As the sector is in the early stages of growth, Rainbow can play a defining role in the development of the industry in Burundi and accordingly, is committed to continuing close liaison with workers and the local community to ensure the project is run for the benefit of all stakeholders.

Government Payments

Rainbow is committed to full payment of its tax and fiscal obligations wherever it operates, as this supports the social licence to operate, and ensures a fair contribution to local economies.

The table below sets out the key payments to government, as direct taxes (such as land taxes, duties etc) as well as indirect taxes arising as a result of Rainbow's activity (such as payroll taxes, withholding tax, and net VAT paid in the period).

Royalty payments relate to the government royalty of 4% charged on the value of exports. During the year to 30 June 2020, as with the previous year, the Burundian authorities applied the 4% royalty rate to the gross basket price value of concentrate exported, rather than the discounted price actually received. The application of the royalty rate to the higher price was implemented as a temporary arrangement with the Burundian authorities, pending the recommendation by a World Bank representative as to whether the discount to the market price of separated oxides, which has been applied to Rainbow's concentrate to take into account the considerable additional separation processing that remains to be undertaken by the end user, is reasonable and equitable. Of the US$59,000 spent in respect of royalty payments in the year, US$42,000 related to the additional payments in respect of the application of the 4% royalty to the higher amount.

Subsequent to the year-end the government has agreed to repay this difference after accepting the recommendations of a report from SRK, commissioned by the World Bank. See note 14 to the Financial Statements for further information.

Permits and land taxes include annual taxes payable to the Government of Burundi under the terms of the Mining Convention for the Mining Permit at Gakara. Corporation Tax in Burundi relates to a minimum charge incurred during the year as set out in note 9 to the Financial Statements. No taxable profits were reported in the local entity during the year. Payroll taxes, withholding tax, and VAT (net of recovered amounts) are included as they represent funds paid by the Group to the government either directly or via suppliers.

		2020			2019	
US$'000	**UK**	**Burundi**	**Total**	UK	Burundi	Total
Royalties	**-**	**59**	**59**	–	185	185
Permit and land taxes	**-**	**20**	**20**	–	–	–
Corporation tax	**-**	**41**	**41**	–	1	1
Duties & other	**-**	**23**	**23**	1	6	7
Total tax borne	**-**	**143**	**143**	1	192	193
Payroll tax	**228**	**89**	**317**	218	99	317
Withholding tax	**-**	**92**	**92**	–	88	88
Net VAT	**2**	**(77)**	**(75)**	(7)	14	7
Total net payments to government	**230**	**247**	**477**	212	393	605

WE ARE COMMITTED TO THE HIGHEST STANDARDS OF CORPORATE SOCIAL RESPONSIBILITY.

CORPORATE GOVERNANCE

DIRECTORS' REPORT

The Directors present their annual report and the financial statements of the Group for the year ended 30 June 2020.

General
Rainbow Rare Earths Limited, the parent company of the Group, was established in Guernsey on 5 August 2011. On 30 January 2017, its shares were listed on the Standard segment of the Main Market of the London Stock Exchange.

Principal Activity
The Company's principal activity is the mining and exploration of rare earth minerals at its Gakara Project in Burundi.

Business Model
The basis on which the Company seeks to preserve and generate value is through the investment of its funds in the development of exploration assets and mines, which in turn allow for the production of rare earth concentrates which are then sold at a profit. The net cash generated from these activities is used to service the Company's financing, re-invested in further exploration activity or in capex, or (where appropriate) repaid to investors in the form of dividends.

In the short term, this strategy is focused around the development of the Gakara Project in Burundi, where exploration activities are currently focused on improving the knowledge of the geology and mineralisation, and the most appropriate way to mine and process the material to develop a commercial scale mine.

Business Review
A review of the business during the year is included in the Chairman's statement, the CEO's statement, and in the Operating and Financial Reviews. The Group's business and operations and the results thereof are reflected in the attached financial statements.

Business Risks
A review of the key risks to the Company is set out on pages 28 to 29.

Advisers
The Company's advisers are set out on inside back cover.

Financial Results
During the 12 months ended 30 June 2020, the Company reported a net loss of US$2,234,000 (year to 30 June 2019: net loss of US$12,277,000).

No dividends have been declared in respect of the years ending 30 June 2020 or 2019.

Directors
A list of the Directors of the Company is set out on page 26.

No Director shall be requested to vacate his office at any time by reason of the fact that he has attained any specific age. The Board considers that there is a balance of skills within the Board and that each of the Directors contributes effectively.

Directors' Remuneration

	Salary/fees (US$'000)		Benefits (US$'000)		Pension (US$'000)		Compensation for loss of office (US$'000)		Total (US$'000)	
	June 2019	**June 2020**	June 2019	**June 2020**	June 2019	**June 2020**	June 2019	**June 2020**	June 2019	**June 2020**
Executive Directors										
George Bennett	–	**229**	–	**-**	–	**-**	–	**-**	–	**229**
Martin Eales	225	13	9	**7**	19	**1**	–	**164**	253	**185**
Non-Executive Chairman										
Adonis Pouroulis	55	**53**	–	**-**	–	**-**	–	**-**	55	**53**
Non-Executive Directors										
Robert Sinclair	36	35	–	**-**	–	**-**	–	**-**	36	**35**
Alexander Lowrie	36	**35**	–	**-**	–	**-**	–	**-**	36	**35**
Shawn McCormick	36	**35**	–	**-**	–	**-**	–	**-**	36	**35**
Atul Bali	36	**35**	–	**-**	–	**-**	–	**-**	36	**35**
Total	424	**435**	9	**7**	19	**1**	–	**164**	452	**607**

George Bennett was appointed on 27 August 2019, replacing Martin Eales as Chief Executive Officer. George Bennett's salary was agreed by the Remuneration Committee at a rate of US$250,000 per annum. He is not entitled to any other benefits. George Bennett was paid for services provided as part of the preparation for his role for the period from 1 August 2019 to his appointment and those fees are included in the amounts disclosed above.

Martin Eales stood down on 27 August 2019. On departure Martin Eales received a termination payment totalling £130,000. His benefits including healthcare and life insurance continued until the expiration of the annual policies in place. All other payments ceased on the date of termination. In accordance with the scheme rules, 2,916,666 share options with an exercise price of 10p per share became immediately exercisable on 27 August 2019 and, having not been exercised, lapsed after a period of 90 days.

Non-executive Directors' fees remained unchanged in the year at £42,500 per annum for Adonis Pouroulis as Chair, and £27,500 per annum for the other Non-executive Directors. Half of all non-executive director fees for the year ended 30 June 2020 were settled by the issuance of a combined total of 2,534,604 shares at a value of 3 pence per share as part of the placing announced in June 2020. In addition, fees accrued between March and June 2019 totalling US$54,000 payable to Adonis Pouroulis, Robert Sinclair, Shawn McCormick and Atul Bali were settled in shares at value of 3 pence per share at the time of the July 2019 equity placing.

Directors' Responsibility Statement

The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Group for that period and of the profit or loss of the Group for that period. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law. In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

So far as each of the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware; having taken all the steps the Directors ought to have taken to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Principal shareholders

A list of shareholders who beneficially hold more than 5% of the Company's shares at 27 October 2020 is as follows:

Name of Shareholder	Number of Ordinary Shares	% of Share Capital
Pella Group (beneficially owned by Adonis Pouroulis)	76,478,864	18.1%
Pipestone Capital Inc (beneficially owned by George Bennett)	34,726,294	8.2%
Robert Kampf	28,753,578	6.8%

Interests of directors and senior managers

The interests (all of which are beneficial and include related parties) of the Directors and Senior Managers in the Company's issued share capital 27 October 2020 are as follows:

Position	Number of Ordinary Shares	% of Share Capital
Adonis Pouroulis Non-executive chairman	76,478,864	18.1%
George Bennett Chief Executive Officer	34,726,294	8.2%
Shawn McCormick Non-executive director	9,316,571	2.2%
Alexander Lowrie Non-executive director	5,755,124	1.4%
Robert Sinclair Non-executive director	5,026,757	1.2%
Atul Bali Non-executive director	3,657,992	0.9%
Gilbert Midende Senior manager	1,930,492	0.5%
Cesare Morelli Senior manager	1,889,995	0.5%
Total	**138,782,089**	**33.0%**

Adonis Pouroulis, as the largest shareholder, additionally entered into an agreement with the Company such that, provided his interest remains greater than 20 per cent, he will not undertake any activity that might prejudice the normal and independent operation of the Board and the Company. On 29 July 2019 his shareholding fell to 17.44% and this agreement no longer applied.

Website Publication

The Directors are responsible for ensuring that the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website (www.rainbowrareearths.com) in accordance with applicable legislation in Guernsey governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Going Concern

The Directors have reviewed the Group's cash flow forecasts for at least 12 months following the reporting date including sensitivities and mitigating actions. After taking into account available cash, and forecast cash flow from operations and fundraising activities, the Directors consider that the Group will have adequate resources to continue its operational existence for the foreseeable future. However, the cash flow forecast includes additional fundraising which is not yet in place. The Directors believe that the need to raise further funds represents a material uncertainty that casts doubt on this assumption. Nevertheless, the Directors have a reasonable expectation that this funding will be obtained and accordingly continue to adopt the going concern basis in preparing the financial statements. The basis for this assessment is set out in full in Note 2 to the Financial Statements.

Auditor

BDO LLP has expressed its willingness to continue in office as auditors and a resolution to re-appoint BDO LLP will be proposed at the forthcoming annual general meeting.

Signed on behalf of the Board of Directors on 27 October 2020.

George Bennett
Chief Executive Officer

BOARD OF DIRECTORS

Adonis Pouroulis
Non-Executive Chairman

Adonis is an entrepreneur whose expertise lies in the discovery, exploration and development of natural resources across Africa. Having worked in the sector for over 25 years he has extensive experience and a wide network of industry relationships across the continent. Adonis is the acting Chief Executive Officer of Chariot Oil & Gas (AIM:CHAR) and the founder and chairman of the Pella Resources Group. Adonis holds a Bachelor of Science Degree (Honours).

Shawn McCormick
Non-Executive Director

Shawn is an International Affairs specialist with more than 20 years' political and extractive industries sector experience having served in The White House as Director for African Affairs on the National Security Council (Washington), Political Affairs Director of BP (London) and Vice President of TNK-BP (Moscow). He is currently Managing Director of Connaught Strategies Ltd.

Alexander Lowrie
Non-Executive Director

Alex is the co-founder of Telemark Capital LLP, a partnership focusing on capital advisory and asset management. Through its consulting subsidiary, Alex is also involved in providing governance services as an independent investment committee member to a variety of advisory panels. Prior to this Alex worked for 13 years in investment banking. He was a director at Deutsche Bank and then RBS from 2004 to 2012, having started his banking career in 1998 at ABN AMRO. Through these positions he has gained extensive market experience in primary and secondary equity offerings including bringing companies to market through IPOs (including structuring, marketing and distribution).

Robert Sinclair
Non-Executive Director

Robert has over 48 years' experience in finance and accountancy of which 38 years have been spent in the Guernsey financial services industry. He is a director and chairman of the Audit Committee of Chariot Oil & Gas Limited, a fellow of the Institute of Chartered Accountants in England & Wales, and a member of the Institute of Chartered Accountants of Scotland. Robert is a resident of Guernsey.

Atul Bali
Non-Executive Director

Atul is a corporate CEO with extensive experience in tech, government contracting and regulated industries operating on six continents. Over more than 20 years he has led more than 50 M&A and JV transactions in more than 25 countries and both managed and served on the boards of several highly regulated businesses. Currently he serves as a consultant to several technology companies, including and as Chairman of Meridian Gaming, regulated and operating in more than 30 countries, with a large footprint in Africa, Central and South America and Central and Eastern Europe. He has previously held divisional CEO or President positions with IGT (NYSE), Aristocrat (ASX), and Real Networks (NASDAQ), as well as a venture capital firm. He previously trained as a Chartered Accountant with KPMG in the UK.

George Bennett
Chief Executive Officer (appointed 27 August 2019)

With over 25 years' experience in mining, finance and management, George has led a number of mining and energy companies, including Shanta Gold Ltd (which he successfully listed on the London Stock Exchange in 2005), OreCorp Ltd, Argentum (Pty) Energy, and most recently Karo Power (Pvt) Ltd. In 2006, George established MDM Engineering Ltd, which he successfully listed on the London Stock Exchange in 2008. MDM Engineering Ltd is a mining engineering company building mineral process plants and mining infrastructure throughout Africa. In 2014, George was instrumental in selling the business to Foster Wheeler Limited for US$120 million.

In addition, George has been a partner and director with a number of leading financial, broking and advisory businesses including Fergusson Bros, Simpson Mckie, and HSBC Securities Africa (Pty) Ltd.

SENIOR MANAGEMENT

Dave Dodd
Technical Director (appointed February 2020)

Dave has 45 years of extractive metallurgy experience covering research and development, technical sales and predominantly metallurgical project development and execution. He was Technical Director and co-founder of MDM Engineering between 1987-2014. Dave has designed and commissioned plants across Africa and the rest of the world, covering minerals from REEs to gold, platinum, diamonds, copper, zinc, phosphate, cobalt and many others.

Gilbert Midende
General Manager, Burundi

Gilbert has a doctorate in Geological Science, which he obtained in 1984 at the Université Libre de Bruxelles, Belgium. He was appointed Director General of Geology and Mines for Burundi in 1987 and was Minister of Mines between 1988 and 1993. He has been a consultant to the World Bank since 2007. From 1996 to 2001, he was Principal of the University of Burundi and Minister of Higher Education and is currently Professor in Economic Geology at the University of Burundi. Gilbert is responsible for all of the Group's administration and Government relations in Burundi.

Chris Attwood
Project Manager

Chris graduated in 1993 from Camborne School of Mines (UK) with an honours degree in Mining Engineering. He has spent over 25 years in extractive industries in Africa, Asia and Europe where he has specialised in developing and expanding small to medium sized mining operations. Over the last 10 years he has focused on Africa, and his experience includes Bisha Mine (Eritrea), where he was Mine Manager from start of commercial gold production, expansion through to the start of copper. He also recently worked as project manager on a greenfield start up in Tanzania. His production experience includes gold, copper, tin, zinc, coal and industrial minerals using both bulk and narrow vein extraction methods.

Cesare Morelli
Chief Geologist

Cesare Morelli has over 30 years' experience in minerals exploration in Africa including 18 years in diamond exploration with De Beers managing projects in south, west and central Africa. Following his time with De Beers, he spent four years with BHP Billiton as Minerals Exploration Manager for Africa. At BHP Billiton he directed exploration projects in a variety of commodities, namely iron ore, aluminium bauxite, manganese, copper and base metals, nickel and potash. Cesare has been affiliated with Rainbow since its inception and has been responsible for project managing all of Rainbow's exploration work to date. He is a Director of Benzu Minerals (Pty) Ltd, a consulting company based in South Africa. Cesare is a member of the South African Geological Society and the South African Council for Natural Scientific Professions and is a Competent Person as defined by the JORC Code 2012 Edition, having ten (10) years' experience in REE mineralisation and REE deposits.

Pete Gardner
Chief Financial Officer (appointed May 2020)

Pete is a qualified Chartered Accountant with a breadth of experience in financial management and corporate finance in the natural resources sector. He was the Finance Director of Amara Mining plc from October 2009 managing the corporate and financial development of the company culminating in its acquisition by Perseus Mining, and former Chief Finance Officer for Piran Resources, Chaarat Gold Holdings and Alexander Mining plc.

The above names have been designated as Persons Discharging Managerial Responsibility ("PDMRs") along with Martin Eales, the previous CEO who stepped down in August 2019 and Jim Wynn, the previous CFO, who stepped down in May 2020.

RISKS & UNCERTANTIES

The Directors regularly assess and discuss the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.

The key risks affecting the Company are set out below:

Risk	Comment	Business impact	Mitigation
Exploration risk	The Company does not currently have a code-compliant Mineral Resource or Reserve. The variations in form and direction of the vein stockwork seen at Gakara are inherently difficult to predict with accuracy and therefore the geological information gathered to date is only sufficient to report an Exploration Target under JORC. It is possible that the quantity of rare earths present in the licence area is less than management expectations with resulting impacts on plans to develop a long term commercial operation at Gakara.	High	The Company continues to undertake exploration activities on the Gakara deposit to gain a better understanding of the resource. Ongoing trial mining of ore sourced via both mechanical and manual mining methods from across the licence area continues to confirm near vein continuity and quality. Batch processing of this material demonstrates the ability to produce a high-grade rare earth concentrate via simple gravity separation for all ore sources identified to date. The Company has defined a comprehensive exploration programme to convert exploration targets to inferred resources.
Rare earth prices	The Company is focused on developing a commercial scale operation at the Gakara Project to produce rare earth concentrates and, ultimately, separated rare earth oxides. Rare earth prices have been volatile in the past. If the underlying rare earth basket price falls, this reduces potential revenue that will impact the long-term profitability of the project and could impact the commercial viability of any development. The Company currently has an off-take agreement with ThyssenKrupp, selling rare earth concentrate at a discount of approximately 70% to the quoted price of the underlying metal oxides.	High	In the event of lower market prices, the Company would seek to defend its margins by reviewing its operating cost base, where possible, and cut back on discretionary expenditure. The Company will have the flexibility to increase the scale of the targeted initial commercial development of 5,000 tonnes of concentrate production per annum to off-set lower margins in the knowledge that the simple gravity processing requirements have a low capital intensity. The Company will aim to re-negotiate the current off-take arrangements if required to ensure a commercial development is viable in the interests of all stakeholders.

Risk	Comment	Business impact	Mitigation
Financing risk	The Company currently forecasts that additional funding will be required in order to deliver its exploration and project development plans as well as for general working capital requirements.	**High**	The Company has recently invested in increased mining capacity and minor processing plant improvements designed to better utilise the pilot processing plant as part of the exploration program, whilst also minimising ongoing losses from the trial mining activities. In addition, management maintains strong relationships with key sources of finance, including its bankers Finbank, its existing shareholders and the wider equity markets in the UK and beyond. The Company has a history of securing funding required for the Company's growth plans, including support from its cornerstone investors, and management expect to be able to bring in additional funding as required.
Civil unrest	Burundi has experienced civil unrest, including most recently in 2015. Any subsequent instances of civil unrest could impact the operation of the mine, including its ability to obtain supplies or export its material, or even access its bank accounts in country.	**Medium**	Although civil unrest is beyond the control of management, the Company maintains strict political neutrality in order to minimise the risk of association with any party. In the event of unrest, management would prioritise the safety of its staff, and if it were deemed safe to continue in operation, would work to ensure the security of its assets and supplies.
Currency controls	The Company receives proceeds in US dollars, which, are repatriated to an account in the Burundi Central Bank. Burundi has experienced shortages of foreign currency reserves in the past, and it is therefore possible that access to US dollars held in country might be difficult. This would affect the Company's ability to meet ongoing foreign currency obligations (eg corporate costs, and any debt payments in US dollars).	**Medium**	The Company has the right, under its Mining Convention with the Burundian Government, to have unfettered access to its foreign currencies. The Company will continue to monitor currency issues in country, and will negotiate flexible terms with the Government as far as possible.
Covid-19	The Covid-19 pandemic could disrupt the Company's operations, delaying exploration works.	**Low**	Activity in Burundi remains largely unaffected beyond increased travel restrictions for international visitors. The Company is increasing the use of digital meetings and adapting expatriate workers rotation cycles to maintain operational efficiency.

CORPORATE GOVERNANCE STATEMENT

As a Guernsey-registered Company trading on the Standard List of the Main Market of the London Stock Exchange, the UK Corporate Governance Code published by the Financial Reporting Council does not apply to the Company. However, whilst the Company does not apply the UK Corporate Governance Code the Directors recognise the importance of good corporate governance and have implemented corporate governance practices having consideration to the recommendations and principles of the UK Corporate Governance Code as far as is appropriate having regard to the size and nature of the Company.

The Board oversees the performance of the Group's activities. It comprises experienced board members who have held senior positions in a number of public and private companies. The Board is responsible to Shareholders for the proper management of the Group. The Non-Executive Directors have particular responsibility to ensure that the strategies proposed by the Executive Director are carefully considered.

The Board meets regularly and met seven times in the year to 30 June 2020. Prior to such meetings taking place, an agenda and board papers are circulated to the Directors so that they are adequately prepared for the meetings.

To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information.

There is no agreed formal procedure for the Board (or members thereof) to seek independent professional advice but, pursuant to their letters of appointment, the Non-Executive Directors may, where appropriate, take independent professional advice at the Group's expense.

In accordance with the Company's Articles of Associations, the directors submit themselves for re-election every three years at the Company's Annual General Meeting.

The composition of the Board will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience. The Articles provide that the number of directors that may be appointed cannot be fewer than two. Two directors present at a board meeting will constitute a quorum.

The Board ensures it is aware of the views of major shareholders through regular meetings in person (where appropriate), as well as through discussions with the Company's brokers and market analysts. Where such information has been obtained by the CEO, this information is fed back to the rest of the Board in a timely manner.

Review of Internal Control and Risk Management systems

The Board has reviewed the Company's internal control and risk management systems.

Rainbow Rare Earths Limited has a relatively small team of management and financial staff and is therefore able to retain a tight control over its financial reporting activities. The Board does not consider it appropriate to have a separate internal audit function, however a number of internal controls and reviews have been put in place to provide the Board (and the Audit Committee) with assurance that the risks inherent to operating a mining company in more than one jurisdiction are managed appropriately.

These controls include the following:

- Budgets and forecasts are prepared by finance staff in conjunction with operating teams and are reviewed and approved by senior management (and in the case of the Budget, by the Board).
- Actual results are reported against Budget and forecast, and variances examined.
- Banking transactions must be initiated and authorised by at least two staff members, one of whom is a senior manager. For payments in Burundi the senior manager is normally the General Manager. For international payments the senior manager is normally the CFO.
- Financial operations in Burundi are reviewed regularly by the CFO, both on visits to Burundi and on-line. During the Covid-19 pandemic with international travel reduced reviews have been conducted in an on-line environment.
- The Group uses a central financial reporting system (Xero) which records all transactions, capturing third party documents (eg invoices) which are reviewed by head office on a monthly basis.
- Senior management regularly discuss material developments (normally weekly) and consider financial and reporting implications of any matters arising.

In addition to formal Audit Committee meetings, the CFO has regular interaction with the Audit Committee chairman to discuss control and reporting matters in more detail.

Board of Directors

The Company had one Executive Director and five Non-Executive Directors at 30 June 2020. All major decisions relating to the Group are made by the Board as a whole. Operations are conducted by the subsidiaries of the Company (principally Rainbow Mining Burundi SM) under the direction of the Board of Directors of each of the subsidiary companies. The Company is represented on the board of Rainbow Mining Burundi SM by Cesare Morelli and Gilbert Midende.

The Board reviews key business risks regularly, including the financial risks facing the Group in the operation of its business. These matters include, but are not limited to, the following:

- Determining the strategy for the Company
- Approving the annual Budget
- Discussing and approving financing, including new debt and equity
- Setting the Dividend policy
- Mergers and acquisitions activity and significant transactions
- Risk management
- Considering and, if appropriate, approving the recommendations of Board Committees

The following table lists the names, positions and ages of the Directors, the year they were appointed, and current committee memberships:

Name	Age	Position	Appointed	Audit	Remuneration	Nomination	SHEC
Adonis Pouroulis	50	Chairman	5 Aug 2011	–	Member	Chair	–
Shawn McCormick	53	Non-exec	4 Feb 2016	–	Chair	–	Chair
Alexander Lowrie	45	Non-exec	16 Nov 2016	Member	–	Member	Member
Robert Sinclair	70	Non-exec	5 Aug 2011	Chair	Member	–	–
Atul Bali	49	Non-exec	29 Mar 2017	Member	–	Member	–
George Bennett	59	CEO	27 Aug 2019	–	–	–	Member

Ages at 30 June 2020

The Company does not consider Adonis Pouroulis to be independent by virtue of being a significant shareholder. The other non-executive directors are considered to be independent, in terms of character and judgment, notwithstanding the following:

- All the non-executives are shareholders in the Company (see Directors' Report for details).
- All the non-executives held share options during the year ended 30 June 2020 (see Note 20 for details).

The table below shows the attendance at board and committee meetings during the year to 30 June 2020:

Name	Board	Audit	Remuneration	Nomination	SHEC
Adonis Pouroulis	5/7	N/A	1/1	1/1	N/A
Shawn McCormick	4/7	N/A	1/1	N/A	0/0
Alexander Lowrie	6/7	2/2	N/A	1/1	0/0
Robert Sinclair	7/7	2/2	1/1	N/A	N/A
Atul Bali	7/7	2/2	N/A	1/1	N/A
George Bennett	4/5	N/A	N/A	N/A	0/0
Martin Eales	2/2	N/A	N/A	N/A	0/0

A number of the Board meetings during the year were formal meetings to approve single items of business – notably in connection with the equity placing in July 2019 and June 2020, and the Pipestone Loan Facility in February 2020. These matters were fully discussed with all Board members ahead of the meetings, and their thoughts and challenges were communicated in advance to the chair of those meetings.

The Board are regularly informed of developments outside formal board meetings, through update calls and meetings, reports and one-to-one discussions with the CEO and other management.

The deliberations of the various committees referred to below, do not reduce the individual and collective responsibilities of Board members with regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgment in accordance with their statutory obligations.

These terms of reference are subject to the provisions of the Articles and any other applicable law or regulatory provision in force in Guernsey, and the Listings Rules.

In addition to the Audit, Remuneration, Nomination and Safety, Health and Environment Committees which have formally delegated duties and responsibilities within written terms of reference, the Board may set up additional Committees as appropriate.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Audit Committee
The Board has established an Audit Committee with formally delegated duties and responsibilities. The Audit Committee is chaired by Robert Sinclair and its other members are Alexander Lowrie and Atul Bali.

The Company considers Robert Sinclair to have recent and relevant financial experience, by virtue of his role as a financial adviser and his experience as Audit Committee Chairman with other public companies.

The Audit Committee should meet not less than two times a year and is responsible for ensuring the financial performance of the Company is properly reported on and monitored, including reviews of the annual and interim accounts, results announcements, internal control systems and procedures and accounting policies.

It is also responsible for keeping the categorisation, monitoring and overall effectiveness of the Company's risk assessment and internal control processes under review.

The Audit Committee was formally established in January 2017 and met two times during 2019/20. During these meetings, the following matters were considered:

- The audit of the year ended 30 June 2019 was considered, and key areas of audit risk were discussed with the auditors and with management on 7 October 2019.
- The financial statements for the year ended 30 June 2019, and the interim financial statements for the six months ended 31 December 2019, were reviewed. Following due consideration, the Audit Committee recommended to the Board that these Financial Statements be approved

The Audit Committee also considered the conduct of the external audit by BDO LLP, which was considered to be appropriate. The Committee therefore resolved to propose BDO LLP for reappointment at the next AGM for a period of 12 months. It was noted that BDO LLP had been auditors of the Company since October 2016.

The Audit Committee also considered the independence and objectivity of BDO LLP. The Committee considered the composition of the BDO audit team, together with the duration of service of the partner and senior audit team members on the Company's audit and concluded that BDO LLP was sufficiently independent to conduct the audit. The only non-audit service during the year was the review of the interim financial statements for the six months to 31 December 2019.

Nomination Committee
The Nomination Committee is chaired by Adonis Pouroulis and its other members are Alexander Lowrie and Atul Bali. The Nomination Committee is normally expected to meet only as required. The Nomination Committee is responsible for reviewing, within the agreed terms of reference, the structure, size and composition of the Board, undertaking succession planning, leading the process for new Board appointments and making recommendations to the Board on all new appointments and re-appointments of existing directors.

The Nomination Committee met once during 2019/20 to consider the appointment of George Bennett to the Board as Chief Executive Officer.

Remuneration Committee
The Remuneration Committee is chaired by Shawn McCormick and its other members are Adonis Pouroulis and Robert Sinclair. It is normally expected to meet at least once a year. The Remuneration Committee has responsibility for determining, within agreed terms of reference, the Group's policy on the remuneration of senior executives and specific remuneration packages for executive directors and the non-executive chairman. The remuneration of non-executive directors is a matter for the Board. No director may be involved in any discussions as to their own remuneration.

The Remuneration Committee met once during 2019/20 to discuss the remuneration package of George Bennett on his appointment as CEO and the payments to Marin Eales on the cessation of his contract.

Safety, Health, and Environment Committee ("SHEC")
The SHEC is responsible for developing and reviewing the Group's framework, policies and guidelines on safety, health and environmental management, monitoring key indicators on accidents and incidents within the Group's operations and considering developments in relevant safety, health and environmental practices and regulations.

The SHEC Committee is chaired by Shawn McCormick. The other members of the committee are George Bennett and Alexander Lowrie.

Although no formal meetings were held in the year, a number of informal discussions were held to discuss SHEC matters, in addition to these matters being raised and duly considered at Board meetings.

Share dealing policy
The Company has a share dealing policy requiring all Directors and senior executives to obtain prior written clearance from either the Chairman or the Chief Executive Officer to deal in linked shares. The Chairman requires prior written clearance from the Chairman of the Audit Committee. Close periods (as defined in the share dealing policy) are observed as required by Market Abuse Regulations and other rules that apply to the Company by virtue of the market on which its shares are listed. During these periods, the Company's directors, executives and inside employees are not permitted to deal in the Company's securities. Additional close periods are enforced when the Company or its applicable employees are in possession of inside information.

Anti-bribery policy
The Company has adopted an Anti-bribery policy and procedures, which applies to the Group, its officers and staff anywhere in the world. The policy and procedures have been developed following an assessment of the risks applicable to the Group's business and include a process for reporting suspicious conduct, financial limits on gifts and hospitality, procedures for financial record-keeping and for dealing with contracts with third parties, and a prohibition on charitable or political donations without Board approval.

Pete Gardner has been appointed as the Group's Anti-Bribery Officer to replace Jim Wynn with effect from May 2020. The Anti-Bribery Officer oversees the day-to-day operation of the Anti-Bribery Policy and procedures. The Board also regularly reviews the operation of the Anti-Bribery Policy and procedures and the Anti-Bribery Officer reports to the Board on any specific issues that may arise.

All personnel are required to receive guidance and training in relation to the Group's Anti-Bribery Policy and procedures. Senior staff have already received this training, and training for junior staff continues as an ongoing process.

The Anti-Bribery Officer also undertakes due diligence on third parties as appropriate that are to be engaged by the Group to do business on its behalf. The Group requires third parties to take account of the Anti-bribery policy and to act in accordance with its provisions.

Signed on behalf of the Board of Directors on 27 October 2020.

George Bennett
Chief Executive Officer

WE AIM TO CAPITALISE ON THE ENORMOUS VALUE OPPORTUNITY FROM FURTHER DOWNSTREAM PROCESSING.

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the members of Rainbow Rare Earths Limited

Opinion
We have audited the financial statements of Rainbow Rare Earths Limited (the "Group") for the year ended 30 June 2020 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cashflow statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:
- give a true and fair view of the state of the Group's affairs as at 30 June 2020 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern
We draw attention to Note 2 to the financial statements concerning the Group's ability to continue as a going concern. The matters explained indicate that the Group will require additional funding in order to enable it to meet its liabilities as they fall due for a period of at least the next twelve months. These conditions, along with the other matters set out in Note 2 indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We identified going concern as a key audit matter based on our assessment of the significance of the risk and the effect on our audit strategy.

Our audit procedures in response to this key audit matter included:
- We critically assessed management's cash flow forecast and the underlying assumptions which have been approved by the Board. Our testing included a comparison of forecast rare earth basket prices to spot prices and historic trends and comparison of customer discount estimates to the offtake agreement and historic actuals.
- We compared the forecast trial mining production levels and costs to historical actuals and contracts where applicable and evaluated consistency of the forecast capital and exploration expenditure with the Group's strategic plans.
- We confirmed the receipt in July 2020 and September 2020 of the US$559,000 receivable at year end in respect of the equity placing.
- We reviewed loan agreements and ensured the repayments were appropriately included in the forecasts.
- We critically assessed management's sensitivity analysis and performed our own sensitivity analysis in respect of the key assumptions underpinning the forecasts including rare earth basket prices and production.
- We obtained the signed October bridge financing agreements to support the US$275,000 additional financing and ensured the repayment terms were appropriately included in the forecasts.
- We have made enquiries of management and the Audit Committee regarding the anticipated source of additional funding and reviewed documentation relating to ongoing activities in respect of financing options.
- We have reviewed the disclosure regarding going concern in the financial statements.

Key audit matters

In addition to the matter described in the material uncertainty related to going concern section, key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Classification and carrying value of the Gakara Project

Following the change to the Group's strategy to focus on further exploration of the Gakara Project area, management transferred US$5.4m of mine development costs related to historic exploration work over the licence area to exploration and evaluation assets on 31 August 2019 as detailed in notes 3 and 11. Management applied judgement in determining that the transfer was appropriate based on the nature of the underlying costs and their contribution to the new exploration activities.

Management have capitalised exploration costs in the period, including trial mining operating costs, net of the margin on revenue generated, associated with the exploration and evaluation activity in the period as detailed in note 3 and 11. Judgment was exercised by management in determining the appropriateness of its cost capitalisation policy.

Management are required to assess at each reporting date whether there are indicators of impairment. As detailed in note 3 and 11, management identified no impairment indicators and this assessment required judgment.

Given the judgments required to be exercised by Management in this area we considered this to be a significant risk for our audit.

How we addressed the key audit matter in the audit

How we addressed the audit risk:

- We challenged and considered management's judgment regarding the transfer of mine development costs to the exploration and evaluation asset. In doing so, we evaluated the underlying nature of the mine development costs transferred and the relevance of the historical exploration data and knowledge to the Group's exploration plan. We assessed the date of the transfer, considering public announcements and our own understanding of the timing of the change in strategy. We tested the cut-off of costs and depreciation to confirm they were included in the income statement up to the date of transfer appropriately.

- We evaluated management's accounting policy for the capitalisation of costs in to the exploration and evaluation asset and confirmed they were in line with generally accepted accounting practices. We evaluated whether costs were appropriately capitalised in line with the accounting policy.

  In doing so, we agreed costs to supporting documents such as contracts and invoices to understand and confirm the nature of the work which was being undertaken. We made inquiries of management and the Board to understand the nature of the trial mining and processing activities to evaluate management's conclusion that they contributed to the exploration and evaluation activities.

- We evaluated Management's impairment indicator assessment and formed our own assessment of impairment indicators against the requirements of IFRS 6.

- In doing so we confirmed that the Group continues to hold valid title to the Gakara Project, reviewed budgets and considered the Group's strategic plans for further exploration. We obtained and considered the 2020 Competent Person's exploration target report which confirmed the prospectivity of the Gakara Project, made inquiries of management regarding the exploration plans and considered public announcements regarding the Group's strategy.

  In utilising the Competent Person's exploration target report to form our assessment on the carrying value of the Gakara Project, we performed procedures to assess their objectivity and independence, considered the scope and findings of their report and held discussions with the expert.

- We evaluated the accounting policy and disclosures in note 3 and 11 based on our audit procedures.

Key Observation

Based on the work performed we consider management's accounting treatment to be acceptable and their conclusion that there are no indicators of impairment to be appropriate. We found the disclosures in the financial statements to be appropriate.

INDEPENDENT AUDITORS' REPORT CONTINUED

To the members of Rainbow Rare Earths Limited

Our application of materiality

Group materiality	**US$120,000 (2019: US$106,000)**
Basis for determining materiality	1.5% of total assets (2019: 1.5% of total assets)
Group performance materiality	**US$90,000 (2019: US$79,500)**
Basis for performance materiality	75% of Group materiality (2019: 75% of Group materiality)

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We consider total assets to be the most significant determinant of the Group's financial performance used by members, given the Group's exploration and evaluation focus.

In performing the audit we applied a lower level of performance materiality based on past experience and our overall assessment of the control environment in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds financial statement materiality.

Whilst materiality for the financial statements as a whole was US$120,000 (2019: US$106,000), each significant component of the Group was audited to a lower level of materiality ranging from US$50,000 to US$67,500 (2019: US$42,000 to US$79,500).

We agreed with the Audit Committee that we would report to the Committee all individual audit differences identified during the course of our audit in excess of US$7,500 (2019: US$5,300). We also agreed to report differences below these thresholds that, in our view warranted reporting on qualitative grounds.

An overview of the scope of our audit
Whilst Rainbow Rare Earths Limited is a Company registered in Guernsey and listed on the Standard Segment of the London Stock Exchange in the UK, the Group's principal operations are located in Burundi. In approaching the audit we considered how the Group is organised and managed. We assessed the business as being principally a single project comprising of the Burundian subsidiaries that operate the Gakara Mine, and a corporate head office function.

Our Group audit scope focused on the Group's significant components which comprised the Burundian operating subsidiary and the parent company. The significant components accounted for 89% of total assets and were subject to full scope audits conducted by BDO LLP using a team with experience of auditing in the mining industry, in Africa and with publically listed entities. The remaining four non-significant components were principally subject to analytical review procedures with specific procedures for any significant balances impacting the Group results.

We set out above the risks that had the greatest impact on our audit strategy and scope.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the Directors Report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept by the Company, or
- The financial statements are not in agreement with the accounting records and returns; or
- We have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We considered the laws and regulations of the UK, Guernsey and Burundi to be of significance in the context of the audit. As part of our audit strategy an assessment was performed on the extent of the compliance with the relevant local and regulatory framework. In doing so, we held meetings with relevant internal management to form our own opinion on the extent of compliance. In addition our tests included, but were not limited to agreement of the financial statement disclosures to underlying supporting documentation, performing substantive testing on accounts balances which were considered to be at a greater risk of susceptibility to fraud and reviewed correspondence with regulators in so far as the correspondence related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ryan Ferguson
For and on behalf of BDO LLP,
Recognised Auditor, London, United Kingdom
27 October 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	30 June 2020 US$'000	30 June 2019 US$'000
Revenue		**422**	1,541
Production and sales costs		**(905)**	(3,479)
Administration expenses		**(2,103)**	(1,433)
Adjusted EBITDA [1]		**(2,586)**	(3,371)
Share-based payments	20	**(7)**	(62)
Depreciation	4, 12	**(279)**	(2,570)
Impairment of fixed assets	4, 12	**-**	(3,854)
Total operating expense		**(3,294)**	(11,398)
Loss from operating activities	4	**(2,872)**	(9,857)
Finance income	5	**856**	355
Finance costs	6	**(209)**	(2,644)
Loss before tax		**(2,225)**	(12,146)
Income tax expense	9	**(9)**	(131)
Total loss after tax and comprehensive expense for the year		**(2,234)**	(12,277)
Total loss after tax and comprehensive expense for the year is attributable to:			
Non-controlling interest	22	**(60)**	(785)
Owners of parent		**(2,174)**	(11,492)
		(2,234)	(12,277)
The results of each year are derived from continuing operations			
Loss per share (cents)			
Basic	10	**(0.58)**	(5.93)
Diluted	10	**(0.58)**	(5.93)

1 Adjusted EBITDA represents earnings before finance items, depreciation, amortisation, taxation, share-based payments and impairments.

Notes on pages 44 to 66 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	**30 June 2020 US$'000**	30 June 2019 US$'000
Non-current assets			
Exploration and evaluation assets	11	**7,572**	-
Property, plant, and equipment	12	**942**	6,408
Right of use assets	23	**104**	-
Total non-current assets		**8,618**	6,408
Current assets			
Inventory	13	**167**	98
Trade and other receivables	14	**938**	505
Cash and cash equivalents	15	**788**	119
Total current assets		**1,893**	722
Total assets		**10,511**	7,130
Current liabilities			
Borrowings	17	**(1,093)**	(1,562)
Lease liabilities	17, 23	**(33)**	-
Trade and other payables	16	**(698)**	(2,097)
Total current liabilities		**(1,824)**	(3,659)
Non-current liabilities			
Borrowings	17	**(587)**	-
Lease liabilities	17,23	**(95)**	-
Provisions	18	**(100)**	(100)
Total non-current liabilities		**(782)**	(100)
Total liabilities		**(2,606)**	(3,759)
Net assets		**7,905**	3,371
Equity			
Share capital	19	**28,132**	20,056
Shares to be issued	21, 31	**-**	1,375
Share-based payment reserve	21	**1,099**	1,764
Share warrant reserve	21	**40**	40
Other reserves	21	**60**	-
Retained loss		**(20,542)**	(19,040)
Equity attributable to the parent		**8,789**	4,195
Non-controlling interest	22	**(884)**	(824)
Total equity		**7,905**	3,371

These financial statements were approved and authorised for issue by the Board of Directors on 27 October 2020 and signed on its behalf by:

George Bennett
Director

Notes on pages 44 to 66 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Note	Share capital US$'000	Shares to be issued US$'000	Share-based payments US$'000	Share warrant reserve US$'000	Other reserves US$'000	Accumulated losses US$'000	Attributable to the parent US$'000	Non-controlling interest US$'000	Total US$'000
Balance at 1 July 2018		**16,722**	**-**	**1,203**	**40**	**-**	**(7,548)**	**10,417**	**(39)**	**10,378**
Total comprehensive expense										
Loss and total comprehensive loss for year		-	-	-	-	-	(11,492)	(11,492)	(785)	(12,277)
Transactions with owners										
Issue of shares during the year	19	2,350	-	-	-	-	-	2,350	-	2,350
Share placing transaction costs	19	(215)	-	-	-	-	-	(215)	-	(215)
Shares issued to settle convertibles	31	1,199	-	-	-	-	-	1,199	-	1,199
Shares to be issued to settle convertibles	31	-	1,375	-	-	-	-	1,375	-	1,375
Share options issued as cost of convertible	31	-	-	499	-	-	-	499	-	499
Fair value of employee share options in year	10	-	-	62	-	-	-	62	-	62
Balance at 30 June 2019		**20,056**	**1,375**	**1,764**	**40**	**-**	**(19,040)**	**4,195**	**(824)**	**3,371**
Total comprehensive expense										
Loss and total comprehensive loss for year		-	-	-	-	-	(2,174)	(2,174)	(60)	(2,234)
Transactions with owners										
Issue of shares during the year	19,31	8,385	(1,375)	-	-	-	-	7,010	-	7,010
Share placing transaction costs	19	(309)	-	-	-	-	-	(309)	-	(309)
Discount on interest free bridge loan provided by shareholder	17	-	-	-	-	60	-	60	-	60
Fair value of employee share options in year	20	-	-	7	-	-	-	7	-	7
Employee share options exercised, lapsed or cancelled following vesting	20	-	-	(672)	-	-	672	-	-	-
Balance at 30 June 2020		**28,132**	**-**	**1,099**	**40**	**60**	**(20,542)**	**8,789**	**(884)**	**7,905**

Notes on pages 44 to 66 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2020

	Notes	30 June 2020 US$'000	30 June 2019 US$'000
Cash flow from operating activities			
Loss after tax for the year		**(2,234)**	(12,277)
Adjustments for:			
Depreciation		**279**	2,570
Impairment of property, plant and equipment	4, 12	**-**	3,854
Profit on disposal of fixed assets	12	**4**	-
Share-based payment charge	20	**7**	62
Directors fees settled in shares		**96**	-
Finance income	5	**(856)**	(355)
Finance costs	6	**209**	2,644
Tax expense	9	**9**	131
Provisions	18	**-**	40
Operating loss before working capital changes		**(2,486)**	(3,331)
Net decrease/(increase) in inventory	13	**(22)**	182
Net decrease/(increase) in other receivables	14	**126**	165
Net (decrease)/increase in trade and other payables	16	**(1,188)**	679
Cash used by operations		**(3,570)**	(2,305)
Realised foreign exchange gains		**855**	352
Finance income	5	**2**	1
Finance costs	6	**(5)**	(22)
Taxes paid	9	**(41)**	(131)
Net cash used in operating activities		**(2,759)**	(2,105)
Cash flow from investing activities			
Purchase of property, plant & equipment	12	**(378)**	(1,583)
Exploration and evaluation costs	11	**(2,045)**	-
Proceeds from sale of property, plant & equipment	12	**3**	-
Net cash used in investing activities		**(2,420)**	(1,583)
Cash flow from financing activities			
Proceeds of new borrowings	17	**1,000**	798
Repayment of borrowings	17	**(74)**	-
Interest payments on borrowings	17	**(137)**	(139)
Payment of lease liabilities	17, 23	**(22)**	(18)
Proceeds of Lind convertible	31	**-**	750
Cost of issuing Lind convertible	31	**-**	(75)
Proceeds from the issuance of ordinary shares	19	**5,390**	2,350
Transaction costs of issuing new equity	19	**(309)**	(215)
Net cash generated by financing activities		**5,848**	3,451
Net increase/(decrease) in cash and cash equivalents		**669**	(237)
Cash & cash equivalents at the beginning of the year		**119**	354
Foreign exchange gains on cash and cash equivalents		**-**	2
Cash & cash equivalents at the end of the year	15	**788**	119

Notes on pages 44 to 66 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

1. GENERAL INFORMATION

Reporting entity
Rainbow Rare Earths Limited ("the Company" or "Rainbow") is a company domiciled in Guernsey and incorporated on 5 August 2011, with company registration number 53831, and is a company limited by shares. The Company's registered office is Trafalgar Court, Admiral Park, St Peter Port, Guernsey. The consolidated financial statements of the Company for the years ended 30 June 2020 and 30 June 2019 comprise the Company and its subsidiaries together referred to as the "Group".

2. ACCOUNTING POLICIES

Basis of preparation
The Financial Statements of the Company and its subsidiaries ("the Group") are prepared in accordance with International Financial Reporting Standards ("IFRS") (IFRS and IFRIC Interpretations) issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union.

Going Concern
As at 27 October 2020, the last practicable date before the publication of these accounts, the Company had total cash of US$0.2 million excluding US$275,000 from a recent bridge finance facility as set out in note 28.

The Board have reviewed the Group's cash flow forecasts for the period to 31 December 2021. This forecast assumes a continuation of current trial mining activities alongside limited works focused on surface assessment of targets defined from the recently announced geophysical survey and other previously defined exploration targets across the licence area. Any new exploration programmes arising from the recently announced JORC resource statement will require additional funding, although such programmes are currently uncommitted.

At 30 June 2020 the Group has US$1.7 million of undiscounted financing liabilities including:

- US$0.9 million in an unsecured loan from Pipestone Capital, a Company associated with George Bennett, CEO, which will need to be repaid at the time of the next significant fundraising or 31 December 2021, whichever is earlier. Repayment of this amount in cash is not included in the Group's cash flow forecasts as it is anticipated to be settled as part of the next significant fundraising prior to 31 December 2021.
- US$0.8 million in a term loan from FinBank in Burundi. Repayment of this loan is ongoing at a rate of US$21,000 per month (including interest), which is included in the Group's cash flow forecasts.

The Board have reviewed forecasts covering a period to 31 December 2021. Based on the Group's cash flow forecasts the Board estimates a total funding requirement of at least US$2.8 million for the period ending 31 December 2021, with funding required from December 2020 onwards.

The Company is currently in the process of investing in additional capital equipment to enhance the scale of the current trial mining as part of its exploration activities, including ancillary mining and processing equipment. An additional excavator has already been purchased and is currently being shipped to Burundi. The Board has earmarked a further budget of US$250,000, which is expected to be financed from the receipt of historically overpaid royalties (US$306,000 recoverable at 30 June 2020) and the sale of some surplus equipment. This additional equipment is expected to significantly increase the trial mining capacity for the Group's operations at Gakara as part of the exploration programme, allowing 100t of rare earth concentrate to be produced per month as a by-product of the exploration program. At current rare earth prices that additional production could reduce the total funding requirement of at least US$2.8 million for the period ending 31 December 2021 although a funding requirement would remain.

The Board is confident that this funding would be secured, based on its history of successful fundraising. However, it also acknowledges that this funding is not, at the present time, in place, which has been a deliberate decision in order to avoid unnecessary dilution at the current share price, which the Board believes will rise in the coming months. Accordingly, the Board accepts that the need for additional funding represents a material uncertainty which may cast significant doubt on the ability of the Company to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Standards in issue but not effective
The standards which were issued and effective for periods starting on or after 1 July 2019 have been adopted in the year. These include "IFRIC 23: Uncertainty Over Income Tax Treatments", "Amendments to IAS 28: Long-Term Interests in Associates and Joint Ventures", "Amendments to IAS 19: Plan Amendment, Curtailment or Settlement", "Amendments to IFRS 9: Prepayment Features with Negative Compensation", IFRS 16 "Leases", and "Annual Improvements to IFRS Standards 2015-2017 Cycle".

The adoption of "IFRS 16: Leases" from 1 July 2019 provides for a new model of lessee accounting in which all leases, other than short-term and small-ticket-item leases, are accounted for by the recognition on the balance sheet of a right-to-use asset and an associated lease liability, with the subsequent amortisation of the right-to-use asset over the lease term. The Group undertook an assessment exercise on its active lease agreements as part of the transition to IFRS 16. The Group recognised a right to use asset in respect of the lease for a house used to accommodate workers and an office in Burundi. The lease for the Group's processing plant land in Burundi had historically been accounted for as a finance lease under the requirements of IAS 17. None of the Group's other agreements have terms that require an amended accounting treatment under IFRS 16.

The Group applied the exemptions not to recognise leases which had a term of less than 12 months remaining at the date of transition which related to short term mining equipment leases, which were rented on a weekly basis. The majority of these arrangements were terminated during the year as the Group acquired its own vehicles. At 30 June 2020 the Group retains a single bulldozer rented on a short term lease, which it intends to replace with a purchased unit as soon as funding allows.

The Group has reviewed and considered all other new available standards, amendments and interpretations and the adoption of these new accounting standards had no material impact on the previously reported results or financial position of the Group.

The Group has elected not to early adopt the following revised and amended standards.

Standard	Description	Effective date
Amendments to IAS 1 and IAS 8	"Presentation of Financial Statements" and "Accounting Policies, Changes in Accounting Estimates and Errors"	1 January 2020
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 16	"Property, Plant & Equipment"	1 January 2022
Amendment to IAS 37	"Provisions, Contingent Liabilities and Contingent Assets"	1 January 2022
Amendments to IFRS 3	"Business Combinations"	1 January 2022
IFRS 17	Insurance contracts	1 January 2023

The Company has reviewed and considered these new standards and interpretations and none of these are expected to have a material effect on the reported results or financial position of the Company.

Basis of consolidation
Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The results of undertakings acquired or disposed of are consolidated from or to the date when control passes to or from the Group. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date that control commences until the date that control ceases.

Where necessary, adjustments are made to the results of subsidiaries to bring the accounting policies they use into line with those used by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the non-controlling shareholder's share of changes in equity. The non-controlling interests' share of losses, where applicable, are attributed to the non-controlling interests irrespective of whether the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses. On acquisition of a non-controlling interest the relevant non-controlling interest share of equity is extinguished and the difference between the fair value of consideration paid and the relevant carrying value of the non-controlling interest is recorded in retained earnings.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

2. ACCOUNTING POLICIES CONTINUED

Foreign currency
The consolidated financial statements are presented in US dollars, which is also the functional currency of the company and its subsidiaries (with the exception of Rainbow Rare Earths UK Limited, whose functional currency is GBP). The Group's strategy is focused on developing a rare earth project in the Republic of Burundi which will generate revenues in United States Dollars and is funded by shareholder equity and other financial liabilities which are principally denominated in United States Dollars.

Transactions in foreign currencies are translated to the functional currency of the Group entity at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the reporting date. Exchange differences on all transactions are recognised in the consolidated statement of comprehensive income in the year in which they arise.

Revenue recognition
The Company produces and sells rare earth concentrate from its Gakara project in Burundi. Once concentrate has been produced at the Kabezi plant in Burundi, it is bagged, sampled, and loaded into containers for transportation to a port, normally in East Africa, for shipment.

The Company currently has a 10-year distribution and offtake agreement with its customer, ThyssenKrupp, which commenced in January 2018, and under which production is sold. Under the terms of the contract, the Company's performance obligation is considered to be the delivery of concentrate meeting agreed criteria.

The performance obligation is satisfied and associated revenue from customers is recorded when the title for a shipment is transferred to ThyssenKrupp, normally at a port in East Africa. On transfer of title, control is considered to have passed to the customer with the Company having right to payment, but no ongoing physical possession or involvement with the concentrate, legal title and insurance risk having transferred.

The price for each shipment is established in accordance with the terms of the offtake agreement, by reference to the market price and quantities of rare earth oxides in each shipment, and the shipping and fees deducted from net proceeds by ThyssenKrupp. The Company is entitled to payment for 90% of the shipment on transfer of title with 10% payable subsequently net of any adjustments to reflect quality testing. The Company recognises 100% of the revenue on transfer of title where it is considered highly probable there will be no reversals, having consideration of the independent quality tests performed prior to shipment.

Rare earth exploration and evaluation assets
All exploration and evaluation costs incurred are accumulated in respect of each identifiable project area. Costs which are classified as intangible fixed assets are only carried forward to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment as to whether the deposit is commercially viable and technically feasible for extraction. Costs associated with exploration and evaluation include costs related to trial mining and processing, when such activity is focused on improving the understanding of the ore body. Such costs include the cost of mining, processing and sales costs for concentrate produced as a result of trial mining activities. An adjustment is recorded to cost of sales to eliminate the margin generated on revenue during this period with a corresponding reduction in capitalised costs.

Pre-licence/project costs are written off immediately. Other costs are also written off unless the Board has determined that the project is commercially viable and technically feasible for extraction, or the determination process has not been completed. Accumulated cost in relation to an abandoned area are written off in full to the statement of comprehensive income in the year in which the decision to abandon the area is made.

Exploration and evaluation assets associated with an identifiable project area are transferred from intangible fixed assets to tangible fixed assets as "mine development costs" when the commercial viability and technical feasibility of extracting the deposit has been established. This includes consideration of a variety of factors such as whether the requisite permits have been awarded, whether funding required for development is sufficiently certain of being secured, whether an appropriate mining method and mine development plan is established and the results of exploration data including internal and external assessments.

Property, plant and equipment
Property, plant and equipment consists of plant and machinery, mine development costs, motor vehicles, computer equipment, and office furniture and fittings.

Property, plant and equipment is initially recognised at cost and subsequently stated at cost less accumulated depreciation and any impairment. The cost of acquisition is the purchase price and any directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management.

The Company assesses the stage of a mine development project to determine when it has reached commercial production, at which point the relevant assets begin to be depreciated. The criteria used to assess the date at which commercial production is achieved, being the point at which the mine is ready for its intended use and operating in the manner intended by management, include: completion of a reasonable period of testing, the ability to sustain commercial levels of production, and engineering sign off on the plant performance. In the case of new mining sites, commercial production is deemed to have been met when the site has received all necessary permits and approvals (including a certificate of environmental conformity) and is in operation as a mine. Prior to this period, any costs associated with the mine site are capitalised.

Depreciation
Property, plant and equipment is depreciated over the shorter of the estimated useful life of the asset using the straight-line method, or the life of mine using the unit of production method and life of mine tonnes. Residual values and useful lives are reviewed on an annual basis and changes are accounted for over the remaining lives.

The applicable depreciation rates are as follows:

Description	Useful life
Mine development and restoration costs	Infrastructure depreciated on a life of mine unit of production basis. Mining costs depreciated on a unit of production based on the tonnes mined and estimates of tonnes contained in a specific mining area.
Plant and machinery	Life of mine unit of production basis
Vehicles	5 years
Computer equipment	3 years
Office furniture and fittings	7 years

Depreciation incurred on equipment used in exploration is capitalised to exploration and evaluation costs.

Impairment of exploration and evaluation assets
Exploration and evaluation assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 "Exploration for and Evaluation of Mineral Resources" and tested for impairment where such indicators exist. In addition, these assets are tested for impairment prior to transfer to mine development costs.

In accordance with IFRS 6 the Group considers the following facts and circumstances in their assessment of whether the Group's exploration and evaluation assets may be impaired:

- whether the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- whether substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- whether exploration for and evaluation of reserves in a specific area have not led to the discovery of commercially viable quantities of mineable material and the Group has decided to discontinue such activities in the specific area; and
- whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

If any such facts or circumstances are noted, the Group, as a next step, perform an impairment test in accordance with the provisions of IAS 36. In such circumstances the aggregate carrying value of the exploration and evaluation asset is compared against the expected recoverable amount of the cash generating unit. The recoverable amount is the higher of value in use and the fair value less costs to sell.

Any impairment arising is recognised in the income statement for the year.

Impairment of property, plant and equipment
A review is carried out at each balance sheet date to determine whether there is any indication that tangible fixed assets should be impaired. Assets are assessed for indicators of impairment (and subsequently tested for impairment if an indicator exists) at the level of a Cash Generating Unit ("CGU"). A CGU is the smallest group of assets that generates cash inflows from continuing use. If an indication of impairment exists, the recoverable amount of the asset or CGU is determined. The recoverable amount is the higher of value in use and the fair value less cost to sell. In assessing the value in use the expected future cash flows from the assets are determined based on estimates of the life of mine production plans together with estimates of future rare earth prices, capital expenditure necessary to extract the deposit included in the life of mine plan, cash costs and applying a discount rate to the anticipated risk adjusted future cash flows.

An impairment is recognised immediately as an expense to the extent that the carrying amount exceeds the assets' recoverable amount. Where there is a reversal of the conditions leading to an impairment, the impairment is reversed through the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES CONTINUED

Leases
For leases from the IFRS 16 transition date of 1 July 2019, at inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset, for a period of time, in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used. In rare cases where the decision about how and for what purpose the assets is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The right-of-use asset is initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, impairment indictors for the right-of-use asset is assessed annually and will be adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. The liability is subsequently measured at amortised cost using the effective interest method. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate implicit in the lease to achieve a constant rate of interest on the remaining balance of the liability.

For leases prior to transition of 1 July 2019 where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

Environmental rehabilitation costs
An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present values, are provided for in full as soon as the obligation to incur such costs arises and can be quantified. On recognition of a full provision, an addition is made to property, plant and equipment of the same amount; this addition is then charged against profits on a unit of production basis over the life of the mine. Closure provisions are updated annually for changes in cost estimates as well as for changes to life of mine, with the resulting adjustments made to both the provision balance and the net book value of the associated non-current asset.

Inventory
Stockpiles of ore (whether Run of Mine "RoM" ore, concentrate stockpiles pre-shipment, or concentrate in transit but not yet sold) are valued at the lower of historic cost and net realisable value. Historic cost is based on an allocation of mining costs and (in the case of concentrates) processing costs incurred in bringing the stockpiles to their finished condition for transportation at the period end (including plant running costs, haulage costs from the mine site to the plant, and transportation costs to the port of sale). Realisable value is based on an estimate of selling price less shipment costs, royalties, and other fees to be incurred in the course of the sales process. Inventory stockpile costs do not include an allocation of support costs.

Inventory spares (including tools, parts for equipment, and stocks of consumables) are also valued at the lower of historic cost and realisable value, where material. Spares are reviewed at each period end for obsolescence, with provisions applied to those stock lines whose value in use and re-sale value is uncertain.

Taxation

Current tax is based on the estimated taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. When no taxable profit arises, current tax includes a minimum tax charge in Burundi calculated as 1% of revenue.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Convertible loan notes

Upon issue of a new convertible loan, where the convertible option involves the receipt of a fixed amount of proceeds for a fixed number of shares to be issued on any conversion, the net proceeds received from the issue of convertible loan notes are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated by discounting the contractual future cash flows at the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity and is not re-measured.

Subsequent to the initial recognition the liability component is measured at amortised cost using the effective interest method.

On conversion, the liability is reclassified to equity and no gain or loss is recognised in profit or loss. The finance costs recognised in respect of the convertible borrowings includes the accretion of the liability.

When the terms of a new convertible loan arrangement are such that the option will not be settled by the Company in exchange for a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan (the host contract) is either accounted for as a hybrid financial instrument and the option to convert is an embedded derivative or the whole instrument is designated at fair value through profit and loss.

Where the instrument is bifurcated, the embedded derivative, where material, is separated from the host contract as its risks and characteristics are not closely related to those of the host contract. At each reporting date, the embedded derivative is measured at fair value with changes in fair value recognised in the income statement as they arise. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivative and is subsequently carried at each reporting date at amortised cost. The embedded derivative and host contract are presented under separate headings in the statement of financial position. Where the instrument as a whole is designated at fair value the instrument is measured at fair value subsequent to initial recognition and changes in fair value recorded in finance costs.

Prior to conversion the embedded derivative or fair value through profit and loss instrument is revalued at fair value. Upon conversion of the loan, the liability, including the derivative liability where applicable, is derecognised in the statement of financial position. At the same time, an amount equal to the redemption value is recognised within equity. Any resulting difference is recognised in retained earnings.

In respect of transaction costs, where transaction costs arise in respect of instruments recorded at fair value through profit and loss they are expensed as incurred. Where costs relate to an instrument containing a host liability and derivative the portion attributable to the host is treated as a deduction against the liability and amortised over the term whilst the portion related to the derivative is expensed immediately.

Where loan notes are entered into with shareholders and the terms of the arrangement are considered to reflect the holder is acting in their capacity as a shareholder rather than a lender the effect of discounting the loan liability component at a market rate of interest versus the coupon is recorded in equity. Where a loan note is extinguished and replaced with an amended loan note, the difference in fair value of the new loan note and the extinguished instrument is recorded in equity.

Equity facilities

Where the Company enters into equity drawdown facilities, whereby funds are drawn down initially and settled in shares at a later date, those shares are recorded initially as issued at fair value based on management's best estimation, with a subsequent revaluation recorded based on the final value of the instrument at the date the shares are issued or allocated. Where the value of the shares is fixed but the amount is determined later, the fair value of the shares to be issued is deemed to be the value of the amount drawn down, less any transaction and listing costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

2. ACCOUNTING POLICIES CONTINUED

Financial instruments
Financial assets and financial liabilities are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

- **Financial assets**
  Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with a maturity of three months or less.

  Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due.

  The Group assesses on a forward-looking basis the expected credit losses, defined as the difference between the contractual cash flows and the cash flows that are expected to be received, associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables only, the simplified approach permitted by IFRS 9 is applied, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

  Losses are recognised in the income statement. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement

- **Financial liabilities**
  Loans, borrowings and trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. They are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the statements of financial position date.

  Convertible loan notes are recorded in line with the policy above.

  Equity instruments issued to a creditor to extinguish all or part of a financial liability are initially recognised at their fair value. If their fair value cannot be determined, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability extinguished and the consideration paid is recognised in profit or loss.

Share capital
Ordinary shares are classified as equity and are recorded at the proceeds received, net of any direct issue costs.
The nature of the Company's reserves is set out in note 21.

Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the Chief Executive Officer. It is considered that there is only one segment of the Group being its rare earths project. All revenues from the project are generated in Burundi and sales are exclusively made to a single customer, Thyssenkrupp Materials Trading GmbH, with whom the Company has a 10-year offtake agreement signed in 2014.

Share options
Equity-settled share-based payments to employees and Directors are measured at the fair value of the equity instrument. The fair value of the equity-settled transactions with employees and Directors is recognised as an expense over the vesting period. The fair values of the equity instruments are determined at the date of grant, taking into account market based vesting conditions.

The fair values of share options are measured using the Black Scholes model. The expected life used in the models is adjusted, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees (or other beneficiaries) become fully entitled to the award ("the vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Warrants
Warrants issued are recognised at fair value at the date of grant. The fair value is measured using the Black-Scholes model. Where warrants are issued in respect of services provided, the fair value is expensed on a straight-line basis over the vesting period (if applicable). Where warrants are considered to represent a transaction cost attributable to a liability recorded at amortised cost the fair value is deducted from the liability and amortised subsequently through the effective interest rate. Where a fixed number of warrants are issued and the exercise price is in the functional currency of the issuer the warrant fair value is credited to equity. Where the number of warrants are fixed but the exercise price is in a currency other than the functional currency of the issuer the instrument fails the "fixed-for-fixed" criteria and is recognised as a financial liability at fair value through profit and loss.

3. ACCOUNTING JUDGMENTS AND ESTIMATIONS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods. Key sources of judgment are:

Transfer of mine development costs to exploration and evaluation assets (note 11 and 12)
A review of the Group's strategy in July and August 2019 resulted in a strategic change in the business, to focus on exploration and evaluation of the wider Gakara licence to target a larger scale mining operation, initially focused on producing 5,000tpa rare earth concentrate with modular growth envisaged to an ultimate 20,000tpa scale, rather than the previous small scale mining by hand of high grade veins. The strategic review concluded that, while the deposit has considerable potential, more extensive exploration work aimed at understanding and defining the orebody, together with trial mining and processing work to provide data on the mineralised portions of the stockwork vein systems across the licence and determine the optimal mining and processing methods for a larger operation, was required. Such activities are intended to support an eventual JORC Resource Statement and feasibility study for the scale operation.

Management determined that it was appropriate to transfer US$5.4 million of mine development costs to exploration and evaluation assets with effect from 1 September 2019 as the assets would contribute to the exploration activities being undertaken on the wider licence area under the revised strategy. In doing so, management applied judgment based on the specific facts and circumstances and considered the underlying nature of the assets which included data and knowledge from historical exploration activities that would be integral to the exploration program under the revised strategy.

Costs associated with the trial mining and processing operations, net of margin on associated revenue earned, have been capitalised as part of the exploration and evaluation assets with effect from 1 September 2019 along with costs associated with the ongoing exploration activity across the licence in accordance with the Group accounting policy. Judgment was required in determining the date at which such cost capitalisation commenced considering the timing of the strategic review being sufficiently concluded. In concluding that the costs met the cost capitalisation criteria under the Group's accounting policy for exploration and evaluation assets management considered the nature of the trial mining and processing activities, its objective and contribution to the exploration and evaluation activities.

Impairment indicator assessment for exploration and evaluation assets (note 11)
Judgment was required in determining whether indicators of impairment existed at 30 June 2020 for the Group's exploration and evaluation assets. The Board assessed factors including the remaining licence term, the plans for future exploration and the results of activities to date together with the strategic plans for the asset and concluded no impairment indicators applied.

Going concern (note 2)
Refer to note 2 for judgments in respect of the going concern basis of preparation.

Key sources of estimation uncertainty are:

Impairment to the carrying value of plant, property and equipment at 30 June 2019 (note 12)
The Group assessed at 30 June 2019 whether an indication existed that suggests the Company's fixed assets may need to be impaired. In accordance with accounting policies, should such an indication exist, then the Company would estimate the recoverable amount of the asset or, where applicable, the cash generating unit to which it belongs. The recoverable amount is assessed by reference to the higher of "value in use" (being the net present value of expected future cash flows of the relevant cash generating unit) and "fair value less cost to sell".

At 30 June 2019, the carrying value of the Company's PP&E in respect of the Gakara project was US$11.2 million.

The review of production strategy shortly after year-end indicated that the previous method of focussing on high-grade veins was unlikely to be profitable in the foreseeable future.

Management thus considered this change in outlook to be an indicator of potential impairment at 30 June 2019 in respect of the carrying values of the processing plant at Kabezi, and the Gasagwe and Murambi pits, whose profitability was predicated on mining and processing high grade ores. As the future profitability of high-grade ore mining and processing could not be determined with reasonable confidence, management judged that the carrying value of these assets should be fully written down, and a charge of US$3.9 million was recorded in the accounts at 30 June 2019.

Management considered whether impairment was required in respect of the remaining assets associated with the Gakara licence, primarily related to equipment and historic costs associated with the exploration of the wider licence area. Shortly after the year end, the Company concluded a placing at a share price of 3 pence per share, at which level the Company had a market capitalisation in excess of US$13 million, and on this basis, together with consideration of the plans for the revised exploration strategy, management concluded that no further impairment of the remaining assets at the Gakara level was required.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

3. ACCOUNTING JUDGMENTS AND ESTIMATIONS CONTINUED

Pipestone loan (note 17)
Warrants were issued by the Company in lieu of interest on the first Pipestone loan as set out in note 17. The fair value of the warrants was calculated using a Black-Scholes model whose input assumptions are derived from market and other internal estimates. The key estimates included volatility rates and the expected life of the warrants. Judgement was required in assessing that the market rate of interest applicable to the first Pipestone loan was equivalent to the US$50,000 calculated value of the warrants issued. This included estimating the timing of the repayment of the loan, which occurred on a funding event in June 2020 ahead of the final maturity date in February 2021.

Judgment was required when assessing the market rate of interest applicable to the second Pipestone loan and estimating the timing of cash flows used in determining the effective interest rate as the loan is repayable at the earlier of a US$3 million funding event or the final maturity date of 31st December 2021. Management concluded that the funding event would arise prior to the maturity date for the calculation and this required judgment. Additionally, as the loan was provided by the Group's Chief Executive Office who is also a shareholder, judgment was required in determining that difference between the market rate of interest and the zero coupon represented a shareholder contribution of US$60,000 recorded in equity.

Decommissioning, site rehabilitation and environmental costs (note 18)
The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group recognises management's best estimate of the rehabilitation costs in the period in which they are incurred. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision. The Board assessed the extent of rehabilitation and decommissioning required as at 30 June 2020 and concluded that a provision of US$100,000 should be recognised in respect of future rehabilitation obligations at the Kabezi plant site, and the Gasagwe and Murambi mining areas.

4. LOSS FROM OPERATING ACTIVITIES

Operating loss includes:

	30 June 2020 US$'000	30 June 2019 US$'000
Share-based payment	**(7)**	(62)
Audit of the Group and Company financial statements	**(101)**	(101)
Non-audit service fees	**(2)**	(2)
Depreciation	**(279)**	(2,570)
Impairment	**-**	(3,854)
Loss on disposal of fixed assets	**(5)**	-

The non-audit services provided by the Company's auditors BDO LLP during the year related to a review of the unaudited interim results for the six months to 31 December 2019.

5. FINANCE INCOME

	30 June 2020 US$'000	30 June 2019 US$'000
Interest received	**2**	1
Foreign exchange gains	**854**	354
	856	355

Foreign exchange gains in the current and prior periods mainly relate to gains on translation of funds from US dollars to Burundian Francs ("BIF") plus the settlement of liabilities in Burundi denominated in BIF.

6. FINANCE COSTS

	30 June 2020 US$'000	30 June 2019 US$'000
Charges related to the Lind Facility	**-**	2,473
Interest on Pella bridge loan	**-**	4
Interest on Pipestone bridge loan	**53**	-
Interest on bank borrowing	**118**	139
Bank charges	**19**	23
Interest on lease liabilities (2018: finance leases)	**19**	5
	209	2,644

Details of the Group's borrowings are set out in note 17 and in respect of the Lind facility note 31. The interest charge on bank borrowing during the year related primarily to the BIF denominated loan with Finbank which carries an interest rate of 15%.

7. REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are defined as being Executive and Non-executive Directors and Persons Discharging Managerial Responsibility ("PDMRs"), who are in effect the members of the Executive Committee and are set out on pages 26 to 27.

Their remuneration for the 12 months ended 30 June 2020 and 30 June 2019 is summarised as follows:

	30 June 2020 US$'000	30 June 2019 US$'000
Wages and salaries	**1,129**	1,192
Benefits	**22**	54
Share-based payments	**7**	192
Total remuneration of key management personnel	**1,158**	1,438

Benefits paid to employees include healthcare and pension contributions.

8. TOTAL EMPLOYEE REMUNERATION (INCLUDING KEY MANAGEMENT PERSONNEL)

	30 June 2020 US$'000	30 June 2019 US$'000
Wages and salaries	**1,865**	2,433
Benefits	**82**	140
Share-based payments	**7**	192
Total employee remuneration	**1,954**	2,765

Staff costs includes amounts settled by shares as follows:

- US$54,000 of non-executive director fees relating to the year ended 30 June 2019 settled via the issue of 1,388,887 ordinary shares at a price of £0.03 per share in July 2019.
- US$131,000 of deferred bonuses relating to the year ended 30 June 2018 settled via the issue of 3,470,716 ordinary shares at a price of £0.03 per share in July 2019.
- US$95,000 paid to non-executive directors for H1 2020 fees settled via the issue of 2,534,604 ordinary shares at a price of £0.03 per share in June 2020.

The average number of employees during the period were made up as follows

	30 June 2020 US$'000	30 June 2019 US$'000
Directors	**6**	6
Management and administration	**16**	10
Mining, processing and exploration staff	**251**	190
	273	206

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

9. INCOME TAX EXPENSE

	30 June 2020 US$'000	30 June 2019 US$'000
Withholding tax	**-**	58
Current tax expense	**9**	23
Land tax	**-**	20
Mining convention community tax	**-**	30
Total tax expense for the year	**9**	131

The income tax charge in the year relates to a minimum tax in Burundi for accounting periods where no taxable profits are reported calculated as 1% of revenue (2019: 1.5% of revenue).

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of corporation tax to the loss before tax is as follows:

	30 June 2020 US$'000	30 June 2019 US$'000
Loss for the year before tax	**(1,517)**	(12,146)
Income tax using the Guernsey rate of 0%:	**-**	-
Effects of:		
Differences in tax rates	**(5)**	(2,328)
Disallowed expenses (impairment)	**-**	1,156
Minimum income tax based on revenue in Burundi	**9**	-
Tax losses carried forwards	**5**	1,172
	9	-

Rainbow Rare Earths Limited and Rainbow International Resources Limited are subject to 0% income tax in Guernsey and the British Virgin Islands respectively. Rainbow Rare Earths UK Limited, which was established on 1 April 2017, is subject to an income tax rate in United Kingdom of 19%. In Burundi, Rainbow Burundi SPRL and Rainbow Mining Burundi SM are subject to corporation tax at 30%.

No deferred tax asset has been recognised in respect of the tax losses carried forward as the recoverability of this benefit is dependent on the future profitability of the individual entities within the Group, the timing of which is considered insufficiently certain. The total unrecognised potential deferred tax assets in respect of losses carried forward in Rainbow Rare Earths UK Limited are US$29,000 (30 June 2019: US$12,000), Rainbow Burundi SPRL US$98,000 (30 June 2019: US$104,000), and Rainbow Mining Burundi SM US$1,371,000 (30 June 2019: US$1,348,000).

10. LOSS PER SHARE

The earnings per share calculations for 30 June 2020 reflect the changes to the number of ordinary shares during the period.

At the start of the year, 216,339,000 shares were in issue. During the year, a total of 205,642,551 new shares were allotted (see note 19 Share Capital) and on 30 June 2020, 421,981,551 shares were in issue. The weighted average of shares in issue in the year was 373,141,644.

Earnings per share have been calculated using the weighted average of ordinary shares. The Company was loss making for all periods presented, therefore the dilutive effect of share options has not been taken account of in the calculation of diluted earnings per share, since this would decrease the loss per share for each reporting period.

	Weighted number of ordinary shares
At 30 June 2019	193,843,716
At 30 June 2020	**373,141,644**

	Basic and diluted	
	2020	2019
Loss for the year (US$'000) attributable to ordinary equity	**(2,174)**	(11,492)
Weighted average number of ordinary shares in issue during the year	**373,141,644**	193,843,716
Loss per share (cents)	**(0.58)**	(5.93)

11. EXPLORATION AND EVALUATION ASSETS

	US$'000
At 1 July 2018 and 1 July 2019	–
Transferred from Property Plant & Equipment	5,417
Additions	2,155
At 30 June 2020	**7,572**

Refer to note 3 for details of the transfer from property, plant and equipment. The unaudited interim accounts for the period ended 31 December 2019 indicated that US$6.2 million was transferred from property, plant and equipment to exploration and evaluation asset on 1 July 2019 with no depreciation recognised prior to transfer. The unaudited income statement included all costs and revenues relating to the trial mining and processing activities, resulting in a reported loss before tax of US$1.8 million. In preparing the financial statements for the year-end 30 June 2020 the assumptions inherent in the unaudited interim accounts relating to the date of transfer and the nature of the ongoing trial mining and processing activities, and the relevant accounting treatment thereof, were refuted and reassessed as disclosed in note 3. As a result, the transfer from property, plant and equipment to exploration and evaluation costs was reduced by US$0.8 million to US$5.4 million and US$0.7 million of costs and revenues relating to trial mining and processing in October to December 2019 have been capitalised rather than being recognised in the income statement.

Included within additions is US$422,000 (2019: Nil) related to gross revenues earned during the exploration phase which represent a contribution towards exploration costs incurred.

FinBank SA hold security over the fixed and floating assets of Rainbow Mining Burundi SA which include US$6.6 million of exploration and evaluation assets associated with the Gakara mining permit in Burundi.

12. PROPERTY, PLANT AND EQUIPMENT

US$'000	Mine development costs	Plant & machinery	Vehicles	Office equipment	Mine restoration	Total
Cost						
At 1 July 2018	7,791	2,665	709	24	60	11,249
Additions	1,526	–	–	17	40	1,583
At 1 July 2019	**9,317**	**2,665**	**709**	**41**	**100**	**12,832**
Additions	–	–	370	8	–	378
Disposals	–	–	(5)	(4)	–	(9)
Transfer to Intangible Fixed assets	(9,134)	–	–	–	(100)	(9,234)
At 30 June 2020	**183**	**2,665**	**1,074**	**45**	**-**	**3,967**
Depreciation						
At 1 July 2018	–	–	–	–	–	–
Impairment in the year	1,529	2,235	–	–	90	3,854
Charge for year	1,981	430	142	7	10	2,570
At 1 July 2019	**3,510**	**2,665**	**142**	**7**	**100**	**6,424**
Charge for year	254	–	157	9	–	420
Eliminated on disposals/transfers		–	(1)	(1)	–	(2)
Transfer to Intangible Fixed assets	(3,717)	–	–	–	(100)	(3,817)
At 30 June 2020	**47**	**2,665**	**298**	**15**	**-**	**3,025**
Net Book Value at 30 June 2020	**136**	**-**	**776**	**30**	**-**	**942**
Net Book Value at 30 June 2019	5,807	–	567	34	–	6,408
Net Book Value at 30 June 2018	7,791	2,665	709	24	60	11,249

Depreciation of US$157,000 relating to mining vehicles and site infrastructure was capitalised in the year as part of Exploration and Evaluation costs.

FinBank SA hold security over the fixed and floating assets of Rainbow Mining Burundi SA which include US$941,000 of tangible fixed assets in Burundi.

13. INVENTORY

	30 June 2020 US$'000	30 June 2019 US$'000
Finished goods	**142**	95
Consumables	**25**	3
Total inventory	**167**	98

Finished goods represents 132 tonnes (2019: 51 tonnes) of rare earth concentrate available for export at the Kabezi processing plant, which has been valued at net realisable value, US$147,000 lower than the cost of production. Movements in the value of finished goods are recognised within exploration and evaluation cost additions in the year ended 30 June 2020 to the extent they arose after 1 September 2020 as explained in note 3.

Consumables relates to fuel stocks at 30 June 2020.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

14. TRADE AND OTHER RECEIVABLES

	30 June 2020 US$'000	30 June 2019 US$'000
Accrued income	15	17
VAT recoverable	24	99
Prepayments	18	124
Royalty receivables	306	265
Deposits paid	16	-
Sundry debtors	559	-
Total trade and other receivables	**938**	505

VAT recoverable relates to the input VAT recoverable in Burundi and UK.

Accrued income represents the cash due from the sale of concentrate which took place prior to 30 June, but for which cash was not received until after year end.

The US$306,000 (2019: US$265,000) in respect of royalty receivables arises because the royalty payments up to 30 June 2020 have been based on the total basket price of exports, rather than on the discounted price received from the Company's customer ThyssenKrupp. Subsequent to the year end the Government of Burundi has accepted the recommendations of a report published in July 2019 by SRK, commissioned by the World Bank at the request of Rainbow and the government, into the reasonableness of the discount received by Rainbow and has agreed to repay the difference.

Sundry debtors represent proceeds from the placement announced on 22nd June 2020, set out in note 19, of which US$559,000 has been received to date.

Expected credit losses were assessed at 30 June 2020 considering various potential scenarios, information regarding the counterparty credit risk, the historical payment profiles and forward looking factors. No expected credit loss provision was considered necessary.

15. CASH AND CASH EQUIVALENTS

	30 June 2020 US$'000	30 June 2019 US$'000
Cash at bank and in hand	788	119
Total cash at bank and in hand	**788**	119

No cash amounts were restricted at 30 June 2020 (30 June 2019: nil).

16. TRADE AND OTHER PAYABLES

	30 June 2020 US$'000	30 June 2019 US$'000
Trade payables	261	1,074
Accrued expenses	233	358
Taxes and social security	22	82
Amounts due to staff and management	133	517
Pension contributions	3	3
Other payables	46	63
Total trade and other payables	**698**	2,097

The Directors consider that the carrying value of trade and other payables approximate to their fair value.

17. BORROWINGS

	30 June 2020 US$'000	30 June 2019 US$'000
Finbank Loan	**762**	836
Pella Convertible	**-**	704
Pipestone Loan	**868**	-
Warrant liability	**50**	-
Lease liabilities (note 23 – included in other creditors at 30 June 2019)	**128**	-
Other borrowings	**-**	22
Total borrowings	**1,808**	1,562
Lease liabilities fall due:		
Due within one year	**33**	-
Due between 2 to 5 years	**56**	-
After 5 years	**39**	-
	128	-
Other borrowings fall due:		
Due within one year	**1,093**	1,562
Due between 2 to 5 years	**587**	-
	1,680	1,562

The following table analyses the movement in borrowings:

	30 June 2020		30 June 2019	
	US$'000	US$'000	US$'000	US$'000
Borrowings brought forward		**1,562**		760
Cash flows from borrowings				
Drawdown of borrowings	**1,000**		798	
Repayment of borrowings	**(74)**		-	
Payment of lease liabilities	**(22)**			
Interest paid	**(137)**		-	
		767		798
Non-cash movement in borrowings				
Reclassification of finance lease creditor	**31**		-	
Recognition of right of use lease liabilities	**119**			
Interest charge on borrowings	**190**		4	
Settlement of borrowings in shares	**(779)**		-	
Recognition of warrant liability	**50**		-	
Settlement of interest via issue of warrants	**(50)**		-	
Extinguishment of 1st Pipestone bridge loan	**(925)**		-	
Drawn down of 2nd Pipestone bridge loan	**925**		-	
Discount for deemed interest on related party loan	**(60)**		-	
Other	**(22)**		-	
		(521)		4
Borrowings carried forward		**1,808**		1,562

In addition, details of the Lind Facility relating to the year ended 30 June 2019 are set out in note 31.

Finbank Loan

The Bank borrowings relate to a loan facility with Finbank in Burundi that was converted from an overdraft facility in December 2019 for a total of 1.5 billion BIF (US$799,000). It is expressed in BIF and carries an interest rate of 15%. Prior to the conversion the total amount owing on the original overdraft was reduced and no overdraft remains at 30 June 2020.

Under the terms of this loan, Finbank has security over the fixed and floating assets of Rainbow Mining Burundi SA ("RMB", the local operating company in Burundi which owns the Gakara project and mining permit), the shares of RMB, and the cash held in RMB's Finbank bank accounts. Interest on the loan and overdraft account amounted to US$118,000 (2019: US$139,000), which was settled in cash.

Pella Bridge Loan

The Pella bridge loan was an unsecured bridge funding facility of US$0.7 million announced in May 2019, between the Company and Pella Ventures Limited (an entity in which Adonis Pouroulis, Rainbow's chairman and largest shareholder, has a beneficial interest). The full amount was drawn in June 2019 at an interest rate of 15% per annum. The loan was settled via the issue of 18,636,040 new Ordinary Shares at the same terms as issued to other investors in the placing completed in July 2019 as set out in note 19.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

17. BORROWINGS CONTINUED

Pipestone Bridge Loan

On 21st February 2020 Pipestone Capital Inc, in which George Bennett, the Company's CEO, has a beneficial interest, provided a US$1 million unsecured bridging loan to the Company. The loan was advanced to provide short term capital to the Company to safeguard Pipestone's position as a significant shareholder ahead of what was expected to be a positive resource update followed by a larger capital raise to secure the long term funding for the Company's investment strategy.

The loan did not bear interest, with the finance cost provided by the issue of 2 million warrants with a 4 year life over the Company's shares at a strike price of 4.55p/share (a 30% premium to the 20 day VWAP and a 1.25p premium to the 3.3p/share closing mid-market price on the date of the loan). The warrants have been valued at US$50,000 which equates to an interest rate of 15.0% over the expected life of the loan and has been recognised as interest in the year. The warrants are recognised as a separate liability with a maturity in 2-5 years.

In June 2020 the original Pipestone loan was re-financed, with US$75,000 repaid via the issue of 1,993,779 shares as part of the equity placing announced on 22nd June 2020 at a price of £0.03 per share. The remaining US$925,000 was extinguished and replaced with a new, interest free, unsecured bridging loan of US$925,000 pending a larger capital raise expected following the announcement of the Company's updated resource statement. No further warrants were issued. The loan is repayable on the earlier of 31st December 2021 or the date of a fundraising by the Company to raise a minimum of US$3 million in new equity. At the election of Pipestone Capital Inc all or part of the loan balance may be used to subscribe for shares as part of an equity fundraising triggering repayment on the same terms and conditions applicable for all investors at the time of that fundraising.

As the loan was provided by an entity connected with a director of the Company on preferential terms it has been discounted at an effective interest rate of 15% for an estimated 6 month term representing an arms-length short term loan and the discount recognised in an equity reserve to be recognised as interest payable in the 2020-2021 financial year.

18. PROVISIONS

	30 June 2020 US$'000	30 June 2019 US$'000
Rehabilitation provision	**100**	100
Total provisions	**100**	100

Rehabilitation provisions relate to the anticipated cost of restoring the operating sites at Kabezi, Gasagwe and Murambi.

19. SHARE CAPITAL

	30 June 2020 US$'000	30 June 2019 US$'000
Share Capital	**28,132**	20,056
Issued Share Capital (nil par value)	**28,132**	20,056

The table below shows a reconciliation of share capital movements:

	Number of shares	**US$'000**
At 1 July 2018	**174,760,472**	**16,722**
August 2018 – share placing	13,146,873	1,875
January 2019 – collateral shares issued to Lind	7,500,000	384
March 2019 – Lind drawdown tranche 1	3,425,728	88
April 2019 – Lind drawdown tranche 2	5,132,067	85
May 2019 – Lind drawdown tranche 3	3,927,500	86
June 2019 – conversion of Lind Convertible	8,446,360	816
At 1 July 2019	**216,339,000**	**20,056**
July 2019 – share placing – cash receipts net of costs	121,207,779	4,275
July 2019 – share placing – employee bonuses and fees	4,859,603	185
July 2019 – Pella Convertible	18,636,040	704
July 2019 - Lind Convertible (see note 31)	19,272,462	1,376
June 2020 – share placing – cash receipts net of costs	37,138,284	1,366
June 2020 – share placing – non-executive director fees	2,534,604	95
June 2020 – partial repayment of Pipestone loan	1,993,779	75
At 30 June 2020	**421,981,551**	**28,132**

On 3 July 2019 the Company issued 121.2 million new ordinary shares at a price of 3 pence per share, raising gross cash proceeds of approximately US$4.6 million (before costs of US$0.3 million). At the same time the Company issued:

- 4.9 million new ordinary shares at a price of 3 pence per share as settlement of employee bonuses and non-executive director fees
- 18.6 million new ordinary shares at a price of 3 pence per share representing the settlement of the Pella loan.
- 19.3 million new ordinary shares representing the conversion of the Lind facility announced on 10th June at a conversion price of 2.69 pence per share.

On 22 June 2020 the Company issued 37.1 million new ordinary shares at a price of 3 pence per share, raising gross cash proceeds of approximately US$1.4 million (before costs of US$38,000). At the same time the Company issued:

- 2.5 million new ordinary shares at a price of 3 pence per share as settlement of non-executive director fees
- 2.0 million new ordinary shares at a price of 3 pence per share representing the partial settlement of the Pipestone loan.

These allotments included the following related parties:

	Placing July 2019		**Placing June 2020**	
	No of shares	US$'000	**No of shares**	**US$'000**
Adonis Pouroulis (Director)	19,108,262	722	**3,359,648**	**126**
George Bennett (Director)	26,455,026	1,000	**1,993,779**	**75**
Alex Lowrie (Director)	-	-	**458,332**	**17**
Atul Bali (Director)	305,555	12	**1,783,332**	**67**
Robert Sinclair (Director)	305,555	12	**458,332**	**17**
Shawn McCormick (Director)	305,555	12	**1,787,518**	**67**
Martin Eales (Director)	1,182,563	45	**-**	**-**
Jim Wynn (PDMR)	844,688	32	**-**	**-**
Cesare Morelli (PDMR)	640,315	24	**-**	**-**
Gilbert Midende (PDMR)	803,150	30	**-**	**-**
Others (not related parties)	94,752,753	3,275	**31,825,726**	**1,167**
Total	144,703,422	5,164	**41,666,667**	**1,536**

The share placing in August 2018 and the three Lind drawdowns in 2019 together represent net cash proceeds of shares issued in the period of US$2.1 million (US$2.35 million gross less transaction costs of US$0.21 million).

On 8 August 2018, the Company allotted 13.1 million new ordinary shares at a price of 12 pence per share, raising gross proceeds of approximately US$2.0 million (before costs of US$0.2 million). These allotments included the following related parties:

	No of shares	**US$'000**
Adonis Pouroulis (Director)	2,496,917	389
Robert Sinclair (Director)	291,624	45
Atul Bali (Director)	416,667	65
Martin Eales (Director)	83,333	13
Jim Wynn (PDMR)	58,333	9
Others (not related parties)	9,799,999	1,527
Total	**13,146,873**	**2,049**

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For the year ended 30 June 2020

20. SHARE OPTIONS AND WARRANTS

The total share-based payment charge for the year was US$7,000 (2019: US$62,000).

Employee share options
A total of 10,975,066 employee share options had been issued at 30 June 2019.

No new employee share options were granted and 5,483,666 share options lapsed during the period. The table below shows the movement on share options held by PDMRs in the year:

	Options held at 30 June 2019	Lapsed during the period	Granted during the period	Options held at 30 June 2020	Exercise price (pence)	Date of grant	which first tranche exercisable
A Pouroulis	402,000	–	–	402,000	10.00	30-Jan-17	30-Jan-17
A Pouroulis	500,000	–	–	500,000	15.00	23-Aug-17	23-Aug-17
R Sinclair	350,000	–	–	350,000	10.00	30-Jan-17	30-Jan-17
R Sinclair	500,000	–	–	500,000	15.00	23-Aug-17	23-Aug-17
A Lowrie	500,000	–	–	500,000	15.00	23-Aug-17	23-Aug-17
A Bali	500,000	–	–	500,000	15.00	23-Aug-17	23-Aug-17
C Morelli	944,700	–	–	944,700	10.00	30-Jan-17	30-Jan-17
G Midende	944,700	–	–	944,700	10.00	30-Jan-17	30-Jan-17
M Eales	2,916,666	(2,916,666)	–	–	10.00	30-Jan-17	30-Jan-17
S McCormick	350,000	–	–	350,000	10.00	30-Jan-17	30-Jan-17
S McCormick	500,000	–	–	500,000	15.00	23-Aug-17	23-Aug-17
J Wynn	1,250,000	(1,250,000)	–	–	12.75	27-Jun-17	27-Jun-17
B Jankowitz	1,250,000	(1,250,000)	–	–	12.75	27-Jun-17	27-Jun-17
Others	67,000	(67,000)	–	–	10.00	30-Jan-17	30-Jan-17
	10,975,066	**(5,483,666)**	**-**	**5,491,400**			

At 30 June 2020, the following employee share options were exercisable and outstanding:

	Number	Average weighted exercise price (pence)	Fair value (US$'000)
Outstanding at 1 July 2019	**10,975,066**	**11.77**	**1,387**
Granted during the year	–	–	–
Exercised in the year	–	–	–
Lapsed or expired in the year	(5,483,666)	11.25	(658)
Outstanding at 30 June 2020	**5,491,400**	**12.28**	**599**

Lind Share Options
In January 2019, 16,718,987 share options were issued to Lind Partners with an exercise price of 5.28 pence. These were exercisable immediately from the date of award for a period of 48 months. The Fair Value of these share options was estimated using a Black Scholes model to be US$0.5 million. This cost was included under Finance Costs as part of the cost of the Lind Facility.

Warrants
On 9 November 2015 Rainbow Rare Earths issued 6,293 warrants for services with an exercise price of US$14.30 per warrant and a contractual life of 5 years. The separable warrants were issued as consideration for arranging a funding transaction for the Company. Following the share sub-division, the total warrants and exercise price have been adjusted on a pro rata basis in accordance with the existing agreement.

On 21 February 2020, 2,000,000 warrants were issued to Pipestone Capital Inc, in which George Bennett, the Company's CEO, has a beneficial interest. The warrants were issued in lieu of interest on a US$1 million bridging loan provided to the Company as set out in note 17. The warrants have a contractual life of 4 years at an exercise price of 4.55 pence per warrant. The fair value of the warrants has been estimated using a Black Scholes model to be US$50,000. This cost was included under Finance Costs as part of the cost of the Pipestone Loan Facility. The Pipestone warrants are recognised as a financial liability at fair value through profit and loss.

At 30 June 2020, the following share warrants were outstanding:

	Number	Exercise price	Fair value (US$'000)
Outstanding at 1 July 2019	**427,924**	**US$0.21**	**40**
Issued in the year	2,000,000	4.55 pence	50
Exercisable at 30 June 2020	**-**	**-**	**-**

The Fair Value of share options and warrants awarded in the current and prior year was estimated using a Black-Scholes model. The inputs into the Black Scholes were:

	Lind Share Options 25 January 2019	Pipestone Loan Warrants
Share price (GBP pence)	3.9	3.3
Exercise price (GBP pence)	5.28	4.55
Expected volatility	90%	105.9%
Risk free rate	0.71%	0.45%
Rate of Exchange	1.32	1.296
Time to exercise (years)	4	3

Expected volatility was determined as follows:
- Lind Share options, by calculating the volatility of a basket of similar listed companies.
- Pipestone Loan warrants, by calculating the annual volatility of the Company's closing mid-market share price on the London Stock Exchange.

The expected life used in the model has been on management's best estimate for the effects of exercise restrictions and behaviour.

21. RESERVES

Reserve	Purpose
Share capital	Value of shares issued less costs of issuance
Shares to be issued	Shares to be allotted in respect of equity commitments
Share-based payment reserve	Fair value of share options issued
Warrant reserve	Includes fair value of warrants issued
Translation reserve	Gains/losses arising on retranslating the net assets of Rainbow Rare Earths UK Limited from GBP to US Dollars
Other reserves	Fair value adjustments for interest free loans
Accumulated losses	Cumulative net losses recognised in the statement of comprehensive income
Non-controlling interest	Amounts attributable to the 10% interest the State of Burundi has in Rainbow Mining Burundi SM and 3% interest Gilbert Midende has in Rainbow Burundi SPRL at 30 June 2020. Refer to note 22 for further details and non-controlling interests for earlier periods

Details in the movements of these reserves are set out in the Statement of Changes in Equity.

22. NON-CONTROLLING INTEREST

The non-controlling interests of the Group's partners in its operations are presented in the table below:

Name of subsidiary	**Rainbow Burundi SPRL**	**Rainbow Mining Burundi SM**
Country	**Burundi**	**Burundi**
	US$'000	**US$'000**
Effective non-controlling interest	3%	10%
Interest of non-controlling interest		
As at 1 July 2018	6	33
Minority share of loss for year	–	785
As at 1 July 2019	6	818
Minority share of profit for year	1	59
At 30 June 2020	**7**	**877**
Assets at year-end:		
30 June 2019	1	6,447
30 June 2020	**1**	**8,964**
Liabilities at year-end:		
30 June 2019	313	14,608
30 June 2020	**295**	**17,069**
Profit/(loss) for the year to:		
30 June 2019	–	(7,858)
30 June 2020	**18**	**56**

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For the year ended 30 June 2020

23. LEASES

The Group leases two properties in Burundi which have been recognised in the year ended 30 June 2020 as right of use assets in accordance with the requirements of IFRS 16. Both properties are subject to annual agreements. Right of use assets and lease liabilities have been calculated by reference to the Group's anticipated long-term intentions to renew the lease agreements, which are estimated at 10 years (Bujumbura office) and 4 years (employee accommodation) respectively. The lessor for the employee accommodation is Gilbert Midende, a PDMR and related party (see note 25 below),

Right of use assets	Land and buildings US$'000
Right of use assets recognised in year	119
Depreciation in year	(15)
Balance as at 30 June 2020	**104**

In addition, the Group has a lease contract for land situated in Kabezi at the site of the processing plant, the final payments under which are due in the year ended 30 June 2021 after which the land ownership remains with the Group. This had historically been accounted for as a finance lease under IAS17 and the asset is included within Property, Plant and Equipment in note 11. The lessor, Gilbert Midende, is a PDMR and a related party (see note 25 below),

Lease liabilities	30 June 2020 US$'000
As at 1 July 2019	31
Lease liabilities recognised in year	119
Finance charges	19
Lease payments	(41)
As at 30 June 2020	**128**

The lease liability at 30 June 2019 was included in other creditors within current liabilities. The following table reconciles the minimum lease commitments at 30 June 2019 prior to the adoption of IFRS 16 to the amount of lease liabilities recognised in the year:

	US$'000
Minimum operating lease commitment at 30 June 2019	42
Plus: effect of extension options reasonably certain to be exercised	173
Less: short-term leases not recognised under IFRS16	(18)
Undiscounted lease payments	197
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(78)
Lease liabilities recognised in year	**119**

The Group also leases a number of pieces of mining equipment on a week to week basis. The majority of these arrangements were terminated during the year as the Group acquired its own vehicles. At 30 June 2020 the Group retains a single rented bulldozer, which it intends to replace with a purchased unit as soon as funding allows. The Group has applied the exemption under IFRS 16 not to recognise these short-term leases as right of use assets.

Payments under short term leases in the year ended 30 June 2020 totalled US$579,000 (30 June 2019: US$734,000). Due to the nature of the contracts there is no commitment at year end.

24. CAPITAL COMMITMENTS

There were no capital commitments at 30 June 2020 (2019: nil). Under the terms of the Gakara Mining Convention there are no minimum expenditure commitments in respect of exploration and evaluation activities.

25. RELATED PARTY TRANSACTIONS

	Year to 30 June 2020			Year to 30 June 2019		
	Charged in year US$'000	**Settled in year US$'000**	**Balance as at 30 June 2020 US$'000**	Charged in year US$'000	Settled in year US$'000	Balance as at 30 June 2019 US$'000
Artemis Trustees Limited [1]	**-**	**-**	**-**	32	(16)	16
Gilbert Midende [2]	**38**	**(53)**	**35**	43	(25)	18
Pella Ventures Limited [3]	**-**	**(704)**	**-**	704	-	704
Uvumbuzi Resources Limited [4]	**-**	**-**	**-**	38	(38)	-
Benzu Minerals (Pty) Limited [4]	**56**	**(91)**	**-**	90	(55)	35
Pipestone Capital Inc [5]	**1,000**	**(75)**	**925**	-	-	-
	1,094	**(923)**	**960**	907	(134)	(773)

Notes
1. Robert Sinclair, a Director of Rainbow Rare Earths Limited, resigned from Artemis Trustees Limited on 4th June 2019. Artemis Trustees Limited is therefore no longer a related party to the Group
2. In addition to his salary, US$38,000 was charged by Gilbert Midende in the year ended 30 June 2020 in respect of leases (see note 23). The balance shown at 30 June 2020 relates to amounts contractually due under leases rather than the lease liability recognised including expectations of future renewals.
3. Pella Ventures Limited, of which Adonis Pouroulis is the ultimate beneficial owner, provided a US$0.7 million bridge loan in June 2019 that was settled by the issue of shares in July 2019 as explained in note 17
4. Uvumbuzi Resources Limited and Benzu Minerals (Pty) Limited are connected to Cesare Morelli, the Group's Chief Geologist, through which exploration services are provided to the Group. In addition to the amounts disclosed, which relate to costs associated with the acquisition of exploration licences in Zimbabwe and exploration activities recharged, salary was paid to Cesare Morelli via Benzu Minerals Limited and is included in remuneration disclosures for all key management personnel which has been disclosed in note 7
5. Pipestone Capital Inc, in which George Bennett, the Company's CEO, has a beneficial interest, provided a US$1 million bridging loan to the Group in February 2020 as explained in note 17. In June 2020 US$75,000 was settled via the issue of ordinary shares as part of a placing as set out in note 19

In addition, subsequent to the year end a bridge loan totalling US$275,000 was received from related parties as disclosed in note 28.

26. INVESTMENT IN SUBSIDIARIES

The shareholdings in the Group's subsidiaries for each year are set out below:

			% Share Capital Held	
Name of Company	**Principal Activity**	**Country of Incorporation**	**2020**	**2019**
Rainbow International Resources Ltd	Rare earth exploration	British Virgin Islands	100%	100%
Rainbow Rare Earths UK Ltd	Service Company	United Kingdom	100%	100%
Rainbow Burundi SPRL	Rare earth exploration	Republic of Burundi	97%	97%
Rainbow Mining Burundi SM	Rare earth mining	Republic of Burundi	90%	90%
Rainbow Rare Earths Zimbabwe (Private) Limited	Rare earth exploration	Zimbabwe	100%	N/A

a. Rainbow International Resources Limited, Rainbow Rare Earths UK Ltd and Rainbow Rare Earths Zimbabwe (Private) Limited are all 100% owned by Rainbow Rare Earths Limited
b. 97% of shares in Rainbow Burundi SPRL and 90% of shares in Rainbow Mining Burundi SM are held by Rainbow International Resources Limited
c. The government of Burundi has a 10% interest in Rainbow Mining Burundi SM granted in accordance with the Mining Code of Burundi
d. Gilbert Midende holds a 3% interest in Rainbow Burundi SPRL

27. CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 2020 (30 June 2019: nil).

28. POST BALANCE SHEET EVENTS

On 27 October 2020 the Group perceived a bridge loan totalling US$275,000 from related parties as set out below:

Name	**US$'000**
George Bennett (via Pipestone Capital Inc)	150
Alex Lowrie	25
Atul Bali	25
Robert Sinclair	25
Shawn McCormick	25
Pete Gardner (via MPD Consulting Limited)	25
Total	**275**

The loans are repayable on the earlier of the Company raising US$1.0 million in equity or 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

29. FINANCIAL RISK MANAGEMENT

The Group's financial liabilities at each period end consist of bank borrowings, leases, unsecured loans and trade and other payables (including accrued expenses). The warrants issued in lieu of interest for the Pipestone Loan, as set out in note 20, are measured at fair value through profit or loss. All other liabilities are measured at amortised cost. These are detailed in notes 16, 17 and 23.

The Group has various financial assets, being trade and other receivables and cash, which arise directly from its operations. All are classified as assets held at amortised cost. These are detailed in notes 14 and 15.

The fair values of the Group's cash, trade and other receivables, borrowings, unsecured loans, leases, trade and other payables and financial liabilities at fair value through profit and loss are considered to approximate book value.

The risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (including interest risk and currency risk). The risk management policies employed by the Group to manage these risks are discussed below.

Credit risk
Credit risk refers to the risk that the Group's financial assets will be impaired by the default of a third party. The Group is exposed to credit risk on its cash and cash equivalents as set out in note 15, with additional risk attached to other receivables set out in note 14. Credit risk is managed by ensuring that surplus funds are held in the UK or Guernsey with well-established financial institutions of high-quality credit standing. At 30 June 2020 83% of funds were held with a bank with a long term A- credit rating.

At 30 June 2020 the Company had the following material receivables:
- US$0.6 million due from investors relating to the placing carried out in June 2020 which has been received.
- US$0.3 million due from the Government of Burundi relating to royalty overpayments as set out in note 14. Subsequent to the balance sheet date the Government has agreed to repay this amount.

Market risk
Market risk arises from the Company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Currency risk
Currency risk refers to the risk that fluctuations in foreign currencies cause losses to the Group.

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Sterling and the Burundian Franc. However, management monitors the exchange rate fluctuations on a continuous basis and acts accordingly. The financial assets and liabilities that include significant foreign currency denominated balances are shown below.

Foreign exchange risk is managed by minimising balances held in currencies other than US dollars, particularly Burundian Francs. The table below shows the currency profiles of cash and cash equivalents:

Cash and cash equivalents	30 June 2020 US$'000	30 June 2019 US$'000
US Dollars	245	96
GB Pounds	471	23
Burundi Francs	72	-
	788	119

The table below shows an analysis of the currency of the monetary liabilities in the functional currency of the Group (US dollars):

	30 June 2020 US$'000	30 June 2019 US$'000
US Dollars	1,229	574
GB Pounds	218	1,229
Burundi Francs	1,023	1,754
South African Rand	7	102
	2,477	3,659

The largest exposure and the least stable currency is the Burundi Franc. A 10% movement in the US$:BIF rate would have resulted in a gain or loss of approximately US$0.1 million (2019: approximately US$0.2 million) in the income statement in relation to the cash and cash equivalents and trade payables as at 30 June 2020. Movements in the exchange rates between the US dollar and the South African Rand or GB Pound do not have a significant impact on the Group's financial position.

Interest rate risk
Interest rate risk refers to the risk that fluctuations in interest rates cause losses to the Company.

The Group and Company have no exposure to interest rate risk except on cash and cash equivalents which carry variable interest rates. The Group has no material sensitivity to reasonable changes in variable interest rates. The group monitors the variable interest risk accordingly.

The Group's borrowings bear fixed rates of interest.

Liquidity risk
Liquidity risk refers to the risk that the Group has insufficient cash resources to meet working capital requirements. The Group manages its liquidity requirements by using both short and long-term cash flow projections. The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	As at 30 June 2020				As at 30 June 2019			
	Due within 1 year US$'000	Due in 1 to 2 years US$'000	Due in 2 to 5 years US$'000	Due in 5 to 10 years US$'000	Due within 1 year US$'000	Due in 1 to 2 years years US$'000	Due in 2 to 5 years years US$'000	Due in 5 to 10 years US$'000
Trade and other payables	698	-	-	-	2,097	–	–	–
Loans and borrowings [1]	324	1,249	297	-	1,562	–	–	–
Lease liabilities	49	31	60	51	60	18	–	–
	1,071	1,280	357	51	3,719	18	–	–

1. The Pipestone loan totalling US$925,000 has been included within amounts due in 1 to 2 years based on the contractual maturity. This loan is included in current liabilities on the balance sheet on the basis that it is expected to be repaid within 12 months.

Ultimate responsibility for liquidity risk management rests with the Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group closely monitors and manages its liquidity risk. For further details on the Group's liquidity position, please refer to the going concern paragraph in note 2 of these accounts.

Capital management
In managing the capital, the Group's primary objective is to maintain a sufficient funding base, through debt and equity, to enable the Group to meet its working capital and strategic investment needs. This includes ensuring sufficient funds are available to service the Group's borrowings as they fall due. No funds are held in restricted or designated accounts for future debt servicing requirements. In making decisions to adjust its capital structure to achieve these aims the Group consider not only its short-term position but also its long term operational and strategic objectives.

The Group's primary capital management measure is net debt (borrowings less cash) to total equity, measured as follows:

Net debt/(net cash) to equity	**30 June 2020 US$'000**	30 June 2019 US$'000
Total borrowings (note 17)	1,808	1,562
Less: Cash and cash equivalents	(788)	(119)
Net debt	1,020	1,443
Total equity	7,905	3,371
Ratio	13%	43%

The decrease in net debt reflects the higher cash at the year-end due to the fundraising undertaken in June 2020.

30. NON-CASH TRANSACTIONS

Material non-cash transactions were as follows:

Year end 30 June 2020
- Staff costs and non-executive director fees settled in shares in July 2019 and June 2020 as set out in note 19.
- Settlement of the Pella convertible in shares in July 2019 as set out in note 19.
- Settlement of the final balance of the Lind convertible in shares as set out in note 31 and note 19.
- Settlement of US$75,000 from the Pipestone bridge loan in shares in June 2020 and interest paid on the Pipestone loan in the form of warrants as set out in note 17.
- Recognition of right of use assets under lease agreements as set out in note 23.

Year end 30 June 2019
- The difference between amounts shown in the cash flow statement and finance costs and the finance income as detailed in note 5
- Share-based payments, which have been recognised in the income statement
- Partial settlement in shares of the Lind Convertible as set out in note 31 and note 19.

31. LIND FACILITY

The Lind Facility represented a finance arrangement entered into by the Company in January 2019 with The Australian Special Opportunity Fund, LP, an entity managed by The Lind Partners LLC ("Lind").

The facility consisted of three elements: an unsecured convertible security amount of US$750,000 (the "Lind Convertible"); a 24-month equity drawdown facility of up to US$7.0 million; and share options.

On signing of the facility, the Company received net proceeds of US$775,000 – of which US$750,000 was in respect of the Lind Convertible, US$100,000 was the first drawdown under the equity drawdown facility, and US$75,000 was withheld as a commitment fee.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

31. LIND FACILITY CONTINUED

Upon the first advancement of funding, the Company issued 7,500,000 shares as collateral to Lind, to be used at Lind's discretion to satisfy future share allotments.

The Lind Convertible amount of US$750,000 had a two-year term and carried no coupon. It was convertible into Ordinary Shares of the Company by reference to face value of US$900,000 after a minimum of four months from the date of the agreement (25 January 2019). The conversion price was determined to be the lower of 5.28p (being 130% of the 20-day VWAP prior to the date of the agreement), or a 10% discount to the average of the five consecutive daily VWAPs chosen by Lind during the 20 trading days prior to conversion. The Lind Convertible was initially recorded at the proceeds received, net of transaction costs, and subsequently designated as a liability at fair value through profit and loss held at fair value until settled in equity or the number of shares to be issued was set as a fixed amount.

Lind exercised their right to convert the Lind Convertible into Ordinary Shares in two tranches on 3 and 4 June 2019. The first (3 June 2019) was for 19,047,619 shares at 7.6 pence, equating to £1,448k (US$1,838,000); the second (4 June 2019) was for 14,742,632 shares at 5.75 pence, equating to £858k (US$1,077,000). The total value of the convertible was thus US$2,915,000, based on the fair value of 33,790,251 shares at the date of conversion.

On 30 June 2019, 8,446,360 Ordinary Shares were issued in satisfaction of this exercise, together with the 7,500,000 shares issued as collateral in January 2019, while 17,843,891 Ordinary Shares were allotted on 22 July 2019 following the publication of a Prospectus and the obtaining of the necessary shareholder and regulatory approvals.

In addition to the Lind Convertible, the agreement with Lind also included a 24-month equity drawdown facility. Under the terms of this agreement, Lind agreed to advance monthly amounts of between US$100,000 and US$300,000 in return for the allotment of shares in the Company, whose price was based on 90% of the average of five consecutive daily VWAPs chosen by Lind during the 20 trading days prior to the issue of the shares. On initial recognition, the Company recorded shares to be issued and a receivable at fair value which was subsequently revalued based on the fair value of the instrument until such time as the shares were issued or allocated.

The initial drawdown of US$100,000 on 28 January 2019 was satisfied by the allotment of 3,425,728, with two further drawdowns of US$100,000 each in March and May 2019 for 5,132,067 and 3,927,500 shares respectively.

As part of the overall agreement with Lind, the Company also issued 16,718,987 share options at an exercise price of 5.28p, being 130% of the 20-day VWAP prior to date of the agreement. The options, which remain in place at the date of this report, have a term of 48 months. These options were valued using a Black-Scholes model at US$499,000 and were treated as a transaction cost of the Lind instrument.

The variable number of shares that could be issued under the Lind Convertible was fixed at the date of conversion (in two tranches – 3 June and 4 June 2019). Management concluded that the number of shares that could be issued from the date of the conversion notices was fixed given the terms of the agreement whereby clauses that could give rise to any further variability being non-substantive. Accordingly, the value of the convertible was fixed at that date and the increase in fair value of the instrument compared with the initial proceeds was recorded as a finance cost in the income statement as follows:

	Finance cost US$'000
Fair value movement on the facility [1]	1,899
Recognition of cancellation fee [2]	75
Share options awarded [3]	499
Total cost of the convertible	**2,473**

1. The fair value movement includes the change in the fair value of the convertible loan notes between initial recognition at the US$750,000 proceeds received and the fair value of the loan note at the date Lind issued conversion notices and fixed the number of shares to be issued, together with cash based transaction costs expensed. Lind opted to use the 7,500,000 collateral shares in part-settlement of the convertible on 3 June 2019. At the time these shares were allotted to Lind, their value was US$383,000 (based on a share price of 3.9 pence at 28 January 2019). The value of these shares at the time of their use in part-settlement of the convertible was US$724,000 (based on a share price of 7.60 pence on 3 June 2019). The increase in value of US$341,000 effectively represented a credit reducing the overall cost of the convertible which is included in the fair value movement of the loan.
2. Drawdowns under the facility were suspended in March 2019. Under the terms of the agreement, the facility may be cancelled without cost after six drawdowns have been made, or at any time prior to that for a cancellation fee of US$75,000. The US$75,000 fee is the expected cost of the equity draw down facility and is the maximum cost to be incurred with regard to cancellation
3. The Fair Value of share options granted to Lind Partners as part of the facility agreement which were considered to represent a transaction cost of the facility and therefore expensed.

The Lind Convertible was settled as follows:

	Shares	Valuation US$'000
Value at conversion	**33,790,251**	**2,915**
Collateral shares taken on 3 June 2019	(7,500,000)	(724)
New shares allotted 30 June 2019	(8,446,360)	(816)
Balance at 30 June 2019	**17,843,891**	**1,375**
New shares allotted 22 July 2019	(17,843,891)	(1,375)
Balance at 30 June 2020	**-**	**-**

32. ULTIMATE CONTROLLING PARTY

The Company does not have a single controlling party.

SHAREHOLDER INFORMATION

Executive director
George Bennett – Chief Executive Officer

Non-executive directors
Adonis Pouroulis – Chairman
Alex Lowrie
Shawn McCormick
Atul Bali
Robert Sinclair

Company Secretary
Artemis Secretaries Limited

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Registrars and transfer office
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PO Box 82, The Pavilions, Bridgwater Road
Bristol BS99 7NH

Bankers
Barclays Bank PLC
Finbank Burundi

Joint Brokers
SP Angel
Turner Pope

Independent Auditors
BDO LLP

Solicitors
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